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LEGISLATIVE REVIEW ACTIVITY

REPORT

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

FOR THE

97TH CONGRESS

PURSUANT TO

PARAGRAPH 8 OF RULE XXVI OF THE STANDING
RULES OF THE SENATE

MARCH 14, 1983.—Ordered to be printed

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98TH CONGRESS
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Mr. DOLE, from the Committee on Finance,
submitted the following

REPORT

[Pursuant to paragraph 8 of rule XXVI of the Standing Rules of the Senate]

FOREWORD

This report by the Committee on Finance on its legislative review activity during the 97th Congress is submitted pursuant to paragraph 8 of rule XXVI of the Standing Rules of the Senate. The rule requires standing committees of the Senate to "review and study, on a continuing basis the application, administration, and execution" of laws within their jurisdiction and to submit biennial reports to the Senate. The full text of paragraph 8 follows:

> PAR. 8. (a) In order to assist the Senate in—
>
> (1) its analysis, appraisal, and evaluation of the application, administration, and execution of the laws enacted by the Congress, and
>
> (2) its formulation, consideration, and enactment of such modifications of or changes in those laws, and of such additional legislation, as may be neccessary or appropriate,
>
> each standing committee (except the Committees on Appropriations and the Budget), shall review and study, on a continuing basis the application, administration, and execution of those laws, or parts of laws, the subject matter of which is within the legislative jurisdiction of that committee. Such committees may carry out the required analysis, appraisal, and evaluation themselves or by contract, or may require a Government agency to do so and furnish a report thereon to the Senate. Such committees may rely on such techniques as pilot testing, analysis of costs in comparison with benefits, or provision for evaluation after a defined period of time.
>
> (b) In each odd-numbered year, each such committee shall submit, not later than March 31, to the Senate, a report on the

activities of that committee under this paragraph during the Congress ending at noon on January 3 of such year.

The Committee on Finance, in the course of its work, publishes additional committee prints reporting on various aspects of legislation within its jurisdiction. Copies of those committee prints, as well as additional copies of the instant report, can be obtained from the office of the committee, room SD-221, Dirksen Senate Office Building, Washington, D.C. 20510. Written requests should be accompanied by a return address label.

REPORT OF LEGISLATIVE REVIEW ACTIVITY OF THE COMMITTEE ON FINANCE DURING THE 97TH CONGRESS

Rule XXV of the Standing Rules of the U.S. Senate provides that at the commencement of each Congress there shall be appointed a—"Committee on Finance, to which committee shall be referred all proposed legislation, messages, petitions, memorials, and other matters relating to the following subjects:

"1. Bonded debt of the United States, except as provided in the Congressional Budget Act of 1974.

"2. Customs, collection districts, and ports of entry and delivery.

"3. Deposit of public moneys.

"4. General revenue sharing.

"5. Health programs under the Social Security Act and health programs financed by a specific tax or trust fund.

"6. National social security.

"7. Reciprocal trade agreements.

"8. Revenue measures generally, except as provided in the Congressional Budget Act of 1974.

"9. Revenue measures relating to the insular possessions.

"10. Tariffs and import quotas, and matters related thereto.

"11. Transportation of dutiable goods."

Legislation before the Committee on Finance commonly falls into three major categories: amendments to the internal revenue laws, to the Social Security Act (which includes old-age, survivors and disability insurance, medicare, medicaid, public assistance, and unemployment compensation programs) and legislation affecting foreign trade and tariffs. Legislation relating to the bonded debt of the United States is also within the committee's jurisdiction.

Following is the report of the Committee on Finance on its legislative review activities during the 97th Congress.

LEGISLATIVE REVIEW OF ACTIVITIES PURSUANT TO THE CONGRESSIONAL BUDGET ACT

The Congressional Budget Act of 1974 requires committees at the start of each year to review the budgetary impact of matters under their jurisdiction and to transmit their views and estimates thereon to the Committee on the Budget no later than March 15 with a view to assisting that committee in its development of a recommended first Congressional Budget Resolution for the upcoming year. Upon the adoption of each Budget Resolution, each committee is required by the Budget Act to file an allocation report. The allocation report indicates how the committee proposes to subdivide its overall budgetary allocations under the Budget Resolution among the programs under its jurisdiction (or among its subcommittees).

In compliance with these requirements, the Committee on Finance held executive sessions early in 1981 and 1982 to review the budgetary implications of the spending programs under its jurisdiction and of revenues. The committee considered the estimates of budgetary impact under existing law, changes proposed in the President's budget, and other possible legislative changes. The committee's general budgetary recommendations and estimates developed in these meetings were transmitted to the Committee on the Budget by letters of March 18, 1981 and March 4, 1982. On September 13, 1982 the committee filed a budget allocation report related to the budgetary total for fiscal years 1982 and 1983 included in Senate Concurrent Resolution 92, the first Budget Resolution for fiscal year 1983.

On April 2, 1981 the Senate passed Senate Concurrent Resolution 9, a revised second Budget Resolution for fiscal year 1981, which included a reconciliation instruction directing the Committee on Finance to achieve outlay savings of $8.8 billion in fiscal year 1982 from programs under its jurisdiction. The reconciliation instruction formally was adopted as the first Budget Resolution for fiscal year 1982 by Congress on May 21, 1981. The committee reviewed its programs and on May 6, 1981 reported changes in social security, medicare and medicaid, maternal and child health, AFDC and child support enforcement, unemployment compensation and trade adjustment assistance, supplemental security income and Title XX social services. Total recommended savings amounted to $9.7 billion in outlays for fiscal year 1982.

These recommendations were transmitted to the Committee on the Budget and were subsequently incorporated into H.R. 3982, the Omnibus Budget Reconciliation Act of 1981. H.R. 3982 was passed by both Houses on July 31, 1981 and lowered outlays of programs under Finance Committee jurisdiction for fiscal year 1982 by $9.3 billion.

The first Budget Resolution for fiscal year 1983, as passed by the Senate on June 23, 1982, included a budget reconciliation message directing the committee to realize savings of $4.4 billion in programs under its jurisdiction in fiscal year 1983, and $16.0 billion over fiscal years 1983 to 1985. There also was an instruction to raise revenues by a total of $20.9 billion for fiscal year 1983 and $98.3 billion over the 3-year period. In response to this instruction, the Finance Committee reported an amended version of H.R. 4961 on July 2, which met the revenue and outlay goals. H.R. 4961, as subsequently adopted by Congress on August 19, 1982, changed revenues and outlays so as to reduce the level of deficits by $21.7 billion in fiscal year 1983, and $115.7 billion over the period fiscal year 1983 to 1985.

Publications of the Committee on Finance during the 97th Congress related to the Congressional Budget Process include:

Data and Materials for the Fiscal Year 1982: Finance Committee Report under the Congressional Budget Act (March 1981);

Data and Materials for the Fiscal Year 1983: Finance Committee Report under the Congressional Budget Act (February 1982);

Proposals for Reductions in Spending Programs under the Jurisdiction of the Senate Finance Committee (April 1981);

Background Data and Materials on Fiscal Year 1983: Spending Reduction Proposals Pending before the Senate Finance Committee (June 1982);

Conference Comparison of Spending Reconciliation Bills—H.R. 3982, S. 1377 (July 1981); and

H.R. 3982, S. 1377—Conference Comparison of Medicaid Provisions and the Maternal and Child Health Block Grants.

LEGISLATIVE REVIEW OF PROGRAMS UNDER THE SOCIAL SECURITY ACT

OLD-AGE, SURVIVORS AND DISABILITY INSURANCE

Title II of the Social Security Act provides monthly benefit payments to retired and disabled workers who have sufficient credit from employment and self-employment covered by the social security system. Benefits are also provided for the dependents of such workers and for the survivors of deceased workers.

THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981, PUBLIC LAW 97-35

In compliance with the requirements of the Congressional Budget Act of 1974, the Committee on Finance held a series of hearings in late March and early April of 1981 to review the budgetary implications of the spending programs under its jurisdiction, including the social security programs. The committee considered the estimates of budgetary impact under existing law, changes proposed in the President's budget, and other possible legislative changes. As a result of this review, the committee agreed on May 5, 1981 to recommend to the Committee on the Budget a number of proposed modifications in the Old Age and Survivors Insurance and Disability Insurance programs. The committee's recommendations were approved by the full Senate, without modification, on June 25, 1981 as part of S. 1377, the Omnibus Budget Reconciliation Act of 1981. Because there were differences between the House- and Senate-passed reconciliation bills, a conference committee was formed to resolve those differences. The report of the conference committee was approved by both the House and Senate on July 31, 1981. President Reagan signed the bill into law (P.L. 97-35) on August 13, 1981.

Listed below are the social security provisions approved by the Committee on Finance, with differences between the committee provision and the public law noted where applicable.

Eliminate student benefits for postsecondary students

The committee approved a proposal to eliminate the social security student benefit for postsecondary students age 18-22 who first enrolled in postsecondary schools after the 1981-82 school year. For students already enrolled full time in postsecondary schools and those who entered postsecondary schools on a full-time basis during the 1981-82 school year, monthly benefits would be paid for 8 months each year. Summer benefits for this group would be eliminated for the 4 months, May through August, beginning in 1982. Monthly benefits for these students would be reduced by an additional 25 percent of full benefits beginning September 1982, an additional 25 percent of full benefits in 1983, an additional 25 percent of full benefits in 1984, and completely eliminated by April 1985. No further cost-of-living adjustments would be paid to these students after July 1981.

High school students would continue to receive child's benefits as under current law, except that effective August 1982, no high school student could receive child's benefits after his 19th birthday.

The Committee provision was enacted as part of Public Law 97-35.

Eliminate the Social Security minimum benefit

The committee approved a proposal to eliminate the minimum benefit for both existing and newly entitled beneficiaries. As of August 1981, no new beneficiaries would have received the minimum benefit and all beneficiaries who had been receiving benefits based on the minimum primary insurance amount would have had their benefits recalculated. Benefit amounts for those persons who would have received the minimum under prior law would have been recomputed to reflect the regular benefit formula which underlies the benefit table.

The needy elderly (age 65 and older) and disabled persons who qualified for the minimum benefit under prior law could have received special SSI benefits when the minimum social security benefit was eliminated. To insure that any poor persons in the age group 60-64 would not suffer a decline in income, the committee's proposal would have permitted existing minimum benefit recipients age 60-64 who met the SSI eligibility conditions (regarding income and assets, for example) to receive a monthly SSI cash payment. This payment would have been limited to an amount equal to the difference between the minimum benefit the individual previously received and his or her recalculated social security benefit. This SSI payment would not be adjusted annually for changes in the cost of living. (People age 60-64 newly eligible for an SSI payment, because of this provision, would not be eligible for any other SSI-related benefits such as medicaid.) The overall eligibility age for SSI, or SSI payments to nonminimum benefit recipients would not be changed. The proposal would have applied only to those already receiving the minimum benefit.

Under Public Law 97-35, the minimum benefit would have been eliminated for newly eligible beneficiaries as of November 1981, and for existing beneficiaries as of March 1982. However, this provision of Public Law 97-35 was amended by Public Law 97-123, enacted later in the 97th Congress (see below).

Restrict payment of lump-sum death benefits

The committee approved a provision to eliminate the lump-sum death benefit (LSDP) in cases where there is no eligible spouse or entitled child, effective August 1, 1981. Under the proposal, a surviving spouse, living with the worker at the time of his death, would automatically continue to receive the LSDP. If there were no surviving spouse who had been living with the worker, the LSDP would be payable to a surviving spouse not living with the worker at the time of his death but eligible for survivor benefits, or to any young child of the deceased worker who was eligible to receive monthly cash benefits as a surviving child. If there were no surviving spouse and the worker's children were all over 18 (or over 21 if full-time students) then no one would be eligible to receive the LSDP.

The final provision enacted as part of Public Law 97-35 was effective for deaths occurring after August 1981.

Tighten recency of work test for disability benefits

The committee approved a proposal providing that, in addition to the insured status requirements already part of present law, a disabled worker coming on the rolls after June 1981, must also have worked in covered employment during 6 of the 13 quarters immediately preceding the onset of disability.

This Senate provision was not included in the final legislation.

Modification of the Workers' Compensation offset

The committee approved a proposal making three related changes in the social security DI offset. These changes would have affected only workers becoming disabled after December 1980, and then would have affected only benefits beginning in July of 1981:

(a) Expanded the workers' compensation offset provision to include other disability benefits provided by Federal, State, and local governments, except that needs-based benefits, Veterans Administration disability benefits, private insurance benefits, and benefits based on public employment covered by social security would not be taken into account. The amount of the reduction would be calculated as under the present law workers' compensation offset.

(b) Extended the offset to include benefits paid to disabled workers aged 62 through 64 and their families.

(c) Required that the offset be made sooner—not in the month after the SSA is notified of the other disability payment, but in the month when the non-social security disability payments are actually made.

Discontinue Trust Fund financing of vocational rehabilitation services

The committee approved a provision to repeal Section 222(d) of the Social Security Act, effective October 1, 1981, eliminating trust fund financing of vocational rehabilitation services for disabled beneficiaries.

Public Law 97-35 eliminated trust fund financing of vocational rehabilitation services, except that States may be reimbursed for services provided to beneficiaries who engage in substantial gainful activity for 9 months.

Pension Reform Act cost reimbursement

The committee approved a provision to permit SSA to recover the full cost of retrieving and transmitting information for purposes of enabling pension plans to comply with the Pension Reform Act. Effective October 1, 1981, full payment to the social security trust funds would be required from requesters for expenses incurred in providing earnings information, making clear that reimbursement of these costs is not governed by the Freedom of Information Act, or by the Privacy Act.

The provision enacted as part of Public Law 97-35 was somewhat broader than the committee provision in that it authorized the Administration to recover the cost of processing any information request not directly related to the administration of the program. The final provision was effective upon enactment.

Round Social Security benefits

Under prior law, at each stage in the benefit computation, the amount derived was rounded up to the next higher 10 cents.

The committee approved a proposal, effective for the month following enactment, that the amount derived at each stage in the benefit computation would be rounded to the nearest penny, except for the last step—the actual benefit amount payable per beneficiary. This last amount would be rounded to the next lower dollar.

Under the final provision of Public Law 97-35, benefit amounts are rounded to the lower dime at each step in the benefit computation except at the last step, which is rounded to the lower dollar.

Other provisions

In conference, the Senate conferees agreed to several provisions not contained in the Senate bill. These provisions: (1) eliminated mother's and father's benefits when the youngest child reaches 16 (rather than 18), effective immediately for new beneficiaries and 2 years after enactment for beneficiaries already on the rolls; (2) delayed the lowering from 72 to 70, of the age at which the earnings test no longer applies from January 1982 until January 1983; and (3) prohibited individuals retiring at age 62, and their dependents, from receiving benefits for the month during which they reached age 62.

PUBLIC LAW 97-123

Also during 1981, the Committee on Finance continued to assess the financial outlook for the Social Security system. The Subcommittee on Social Security and Income Maintenance Programs held a series of hearings in July 1981, at which expert witnesses appeared from the Administration, the Congressional Budget Office, and the general public. Faced with reports of a continuing deterioration in the condition of the Old Age and Survivors Insurance trust fund, the committee approved measures in September 1981 to permit borrowing among the reserves of the Old Age and Survivors Insurance, Disability Insurance, and Hospital Insurance trust funds during 1982, and to allocate part of the HI tax to the OASI program in the near term, with a larger proportion of the tax to go to HI beginning in 1985. At the same time, the committee also approved a measure to restore the minimum benefit for individuals who became eligible for it before November 1981, except for persons receiving a government pension of $300 or more per month. These individuals would lose $1 in social security benefits for each $1 that they received in a government pension in excess of $300 a month. In no case, however, would their social security benefits fall below their regularly computed benefit amount. To make up for the lost savings caused by restoring the minimum, the committee adopted two additional measures; one would have increased income while the other would have reduced expenditures.

The revenue measure would have taxed all sick pay in the first 6 months it was received if it were paid from the employer's regular salary or wage account. The second proposal would have subjected maximum family benefits in the OASI program to the same limits prevailing in the DI program: 150 percent of the worker's benefit or 85 percent of his average indexed monthly earnings, whichever is lower. Under current law the family limit for OASI benefits ranges from 150 percent to 188 percent of the worker's benefit (depending on the size of the worker's benefit).

The committee's proposals were brought to the Senate floor as a substitute amendment for the House bill, H.R. 4331, repealing the minimum benefit elimination. After a number of amendments were made on the Senate floor, the bill was approved by the Senate on October 15, 1981.

Summary of Conference Agreement and Public Law 97-123

On Dec. 14, 1981, conferees reconciled the differences in the two versions of H.R. 4331. (The House version contained only one provision—full restoration of the minimum benefit.) With regard to the financing issue the conferees agreed to permit interfund borrowing between the OASI, DI and HI trust funds until Dec. 31, 1982 as an interim measure. With regard to the minimum benefit, the conferees agreed to restore the minimum benefit for all people who were eligible for benefits before January 1982, or whose benefits were based on a worker's eligibility or death before January 1982, making the provision prospective only. Also, the provision provided an exception to the elimination of the minimum benefit for members of religious orders who have taken a vow of poverty, if they become eligible before 1992. For current recipients, to whom the minimum benefit was restored, the conferees did not include the Senate provision that would have reduced the minimum benefit dollar-for-dollar for those also receiving governmental pensions above $300. Other provisions agreed to by the conferees were:

> (1) Consider sick pay during the first 6 months of an illness to be wages for the purposes of social security taxes and work histories; (2) increase penalties for misuse of social security numbers; (3) require Federal and State prisons to provide SSA with names and social security numbers of their inmates; and (4) require the Secretary of HHS to report to Congress within 90 days after enactment on actions being taken to prevent social secuity payments to deceased beneficiaries.

Finally, Public Law 97-123 contained a provision pertaining to AFDC home health aide demonstration projects. Various other Senate amendments were dropped in conference.

The Senate approved the conference report on December 15, the House did likewise on December 16, and the President signed it into law on December 29, 1981, as Public Law 97-123.

TRUST FUND INVESTMENT

The committee also met to consider possible improvements in the procedures governing the investment of the social security trust funds. A hearing was held by the Subcommittee on Social Security and Income Maintenance Programs on June 8, 1982, at which experts from the Social Security Administration, the Treasury Department, the Congressional Budget Office and elsewhere, presented suggestions for possible improvements and cautionary remarks about the dangers of certain possible courses of legislative action. No legislative recommendations were immediately forthcoming from the committee as a result of this hearing.

MODIFICATION OF THE CONTINUING DISABILITY INVESTIGATION PROCESS—PUBLIC LAW 97-455

In 1982, the Committee on Finance considered a number of issues raised in connection with the conduct of reviews of continuing eligibility for disability insurance (DI) benefits. Under the Disability Amendments of 1980 (P.L. 96-265), the Social Security Administration is required to review the eligibility of each DI beneficiary, who is not permanently disabled, at least once every 3 years. This provision was adopted in response to congressional concern over a lack of monitoring of the benefit rolls during the 1970's. Its implementation has resulted in the termination of benefits for a large number of beneficiaries. These terminations have highlighted questions concerning the adequacy of the disability determination process, the proper standards to be applied in determining continuing eligibility, and the appropriateness of applying what appear to be different concepts of disability at the initial and appellate levels of decisionmaking.

These issues were taken up by the Committee on Finance in hearings held in August 1982, which culminated in the reporting out by the committee of a number of measures aimed at easing the impact of the continuing disability reviews. On September 28, 1982, the committee agreed to the following provisions:

> (1) Permit terminated DI beneficiaries seeking appeal to receive benefits through the Administrative Law Judge hearing stage of appeal, but not after June 1983, at which time the provision would expire; (2) provide the Secretary of HHS with authority to waive the requirement that DI beneficiaries must be re-examined every 3 years in States having difficulty, with good cause, in meeting their workload demands; (3) require that all relevant medical evidence developed in the most recent 12-months pertaining to treatment or diagnosis of a DI beneficiary be considered when a re-examination of eligibility is performed; and (4) require a semiannual report on the number of DI beneficiaries terminated and their progress through the appellate stages.

The committee reported out these measures as part of a bill altering certain taxes paid to the Virgin Islands, H.R. 7093. H.R. 7093 was taken up on the Senate floor on December 3, 1983. It was amended on the Senate floor (Dole amendment) so as to:

(1) Extend the time during which benefits could be paid during appeal from June 1983 to June 1984 (but only for beneficiaries

whose benefits were terminated prior to October 1, 1983); and (2) require SSA to consider all medical evidence in the file, including evidence dating from the time of the initial decision. However, even if the beneficiary showed no sign of medical recovery, his benefits could be terminated if this current condition did not meet the standards specified in current regulations and guidelines.

Further modifications to the bill were made subsequently by the House.

CONFERENCE REPORT AND PUBLIC LAW 97-455

At the request of the Senate, a House-Senate conference committee was organized to work out a compromise agreement on H.R. 7093. On December 21, 1982, the conference committee filed a report which was approved by both the House and Senate on that day, just before the adjournment of the 97th Congress. The final legislation as sent to the President contained the following social security provisions (in addition to the provision reducing the rate of certain taxes paid to the Virgin Islands):

(1) Continuation of DI benefits for terminated beneficiaries until a decision on the appeal has been reached by an administrative law judge but not beyond June 1984 and not for terminations occurring after September 30, 1983. Beneficiaries whose appeals were pending at the time of enactment as well as those whose benefits were terminated subsequent to enactment (but before October 1, 1983) would be eligible to elect the special benefits paid during appeal. This provision provided new benefits effective for the month following the month of enactment. Benefits paid during appeal would have to be subject to recoupment as overpayments if the termination decision were ultimately upheld on appeal.

(2) Authority for the Secretary of Health and Human Services to waive, on a State-by-State basis, the statutory requirement (from the 1980 disability amendments) that all nonpermanently disabled beneficiaries be subject to a continuing disability review at least once every 3 years. Waiver could be granted only when the Secretary finds that the State agency has made a good faith effort to process case reviews in a timely fashion.

(3) Requirement that no later than January 1, 1984 the State agencies or SSA conduct an evidentiary hearing, with an opportunity for an in-person appearance by the terminated beneficiary, as a part of the reconsideration level of appeal in all DI benefit termination cases.

(4) Requirement that the Secretary of Health and Human Services inform all terminated beneficiaries of the procedures used in reconsiderations including the opportunities to introduce evidence and to be represented by an attorney.

(5) Requirement that the Secretary of Health and Human Services make a semiannual report to Congress on the number of continuing disability reviews conducted and the disposition of the cases on appeal.

(6) Modification of the government pension offset provision to permit spouses with pensions from noncovered government work to be exempt from the government pension offset if they were dependent on their social security-covered spouses for at least one-half of

their support and if they become eligible for their government pensions during the period December 1, 1982 through June 30, 1983. Without this modification, the government pension offset would apply to all male and female government worker spouses who become eligible for Government pensions as of December 1, 1982 or later.

The President signed the bill into law (P.L. 97-455) on January 12, 1983.

SOCIAL SECURITY FINANCING IN 1982

No major social security financing legislation was enacted in 1982, pending the final report of the President's National Commission on Social Security Reform. This Commission, created by Executive order on December 16, 1981, was charged with formulating a package of proposals for insuring the solvency of the Social Security system in the short and long range. The selection of its membership, which included Senators Dole, Heinz, Armstrong, and Moynihan, was made on a bipartisan basis by the President, the Speaker of the House, and the Senate Majority Leader to insure that all concerned parties were represented. The final report of the Commission was presented to the President and the Congress on Janaury 20, 1983.

AID TO FAMILIES WITH DEPENDENT CHILDREN

Since 1937, the aid to families with dependent children (AFDC) program has provided public assistance to needy families with children who are deprived of parental support or care by reason of death, incapacity or continued absence of a parent from the home too. In addition, beginning in 1961, States were given the option to extend the AFDC program to needy families with children whose fathers were unemployed. The AFDC program is administered by States or by counties under State supervision. The Federal Government matches AFDC costs at rates ranging from 50 to 83 percent. The national average is 54 percent. Families who are eligible for AFDC are also eligible for medicaid. States set standards of eligibility and payment subject to broad Federal guidelines.

When the Administration proposed its 1982 budget, it included a large number of modifications to the AFDC program. Following hearings on the budget proposals, the Committee on Finance approved a number of the Administration's proposed changes, and developed some changes of its own.

Among the more significant of the changes, enacted in the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35), were those dealing with employment programs for AFDC recipients. The committee approved three new work program alternatives: the community work experience program (CWEP), the work supplementation program, and the work incentive (WIN) demonstration program. These three programs, which are optional with the States, are aimed at encouraging employment of parents in AFDC families.

In presenting the rationale for these new programs, the committee wrote in its report:

> The committee believes that States can and, if given sufficient flexibility, will improve the ability of the AFDC program to achieve its statutory commitment to helping AFDC families to attain self-support and independence. The key to independence is employment. Increasingly for American families, the key to independence is the employment of both parents. According to surveys by the Bureau of Labor Statistics, the percentage of mothers of children under age 18 who were in the labor force has steadily risen from 22 percent in 1950, to 30 percent in 1960, 42 percent in 1970, 47 percent in 1975, and 57 percent in 1980. For mothers with children under age 6, the rate of labor force participation has increased from 14 percent in 1950 to 47 percent in 1980.

Under the community work experience legislation approved by the committee, States are authorized to operate community work experience programs which serve a useful public purpose, and to require AFDC recipients to participate in these programs as a condition of eligiblity. These programs must meet appropriate standards for health and safety, and may not result in displacement of persons currently employed, or the filling of established unfilled vacancies. Provision must be made for payments of reasonably necessary work expenses incurred by participants. Participants may not be required to work in excess of the number of hours which, when multiplied by the greater of the Federal or the applicable State minimum wage, equals the sum of the amount of aid payable to the family. Persons exempt from WIN registration are also generally exempt from participation in this program, except that parents caring for a child under 6 (but not under 3) may also be required to participate if child care is available.

The work supplementation program developed by the committee permits States to use savings from reduced AFDC grant levels to make jobs available on a voluntary basis. Under this approach, recipients may be given a choice between taking a job or depending upon a lower AFDC grant than now exists. States implementing this provision may do so in addition to or as an alternative to the community work experience approach.

States may use the savings from the reduced AFDC grant levels to provide or underwrite job opportunities for AFDC eligibles. For example, States may pay nonprofit and governmental entities a subsidy to cover part of the wage costs of hiring AFDC eligibles. (This type of subsidy could also be available to proprietary as well as nonprofit child day care providers but only if taken in lieu of the tax credit which is otherwise available.) Acceptance of any job offered as a part of this program is entirely voluntary on the part of the individual involved. At State option, medicaid coverage could be continued for participants in subsidized employment under this amendment.

States have flexibility to implement the amendment for particular areas within the State or for particular categories of recipients and also have the flexibility to modify the rules for treatment of income so as to avoid situations which would undermine the proposal. For example, modifications might be needed to adjust for offsetting increases in food stamp entitlement or to limit or eliminate the earned income disregard as it applies to those who choose to continue receiving AFDC.

Federal matching (as determined by the regular AFDC matching provisions) is available to a State for the costs of a work supplementation program to the extent that those expenditures do not exceed the amount of Federal savings resulting from the reductions in assistance payments made to eligible participants. To the extent that program costs are less than the savings generated through the reduction in assistance payments, both State and Federal governments derive a saving. No Federal matching is available to a State for expenditures which exceed the savings in Federal matching. Program costs which a State may claim within this matching limitation include wage subsidies, necessary employment related services and administration overhead.

A committee amendment to the WIN legislation authorized States to operate 3-year demonstration programs as alternatives to the current WIN program. The demonstration is aimed at testing single-agency administration and must be operated under the direction of the State welfare agency. The legislation required States to submit an application to the Secretary of HHS specifying intent to operate a WIN demonstration program. This application had to be submitted within 60 days after enactment.

In 1982 the committee approved an amendment allowing States a period of 2 additional years in which to exercise their option to operate a WIN demonstration program. This gives the States until June 30, 1984 to make this decision. The authority which the Secretary has to waive requirements for participation in WIN was extended to the demonstration programs.

The purpose of the demonstration authority is to test the States' ability to develop alternatives to the current AFDC work requirements. Techniques to be used may include job training, job find clubs, grant diversion to either public or private employers, services contracts with State employment services, performance-based placement incentives, and others. A State's application is deemed approved unless the Secretary notifies the State within 45 days of application. An application may not be finally disapproved unless the Secretary determines that the State's program plan would be less effective than the WIN program.

As part of the Omnibus Budget Reconciliation Act of 1981 the committee also recommended major changes aimed at defining and limiting amounts of earnings that may be "disregarded" in determining AFDC benefits. Specifically, prior law provisions requiring States to disregard certain amounts of earned income for purposes of determining benefits in the AFDC program were amended to standardize the work expense disregard at $75 per month for full time employment, cap the child care disregard at $160 per month, and change the order of the $30 plus one-third disregard.

States are now required to disregard the following amount of earnings, in the following order:

(a) *Eligibility determination*—the first $75 of monthly earnings for full time employment (in lieu of itemized work expenses); and the cost of care for a child (or incapacitated adult), up to $160 per child per month.

(b) *Benefit calculation*—the first $75 of monthly earnings for full time employment; child care costs up to $160 per child per month; and $30 plus one-third of earnings not previously disregarded.

The $30 plus one-third disregard is allowed only during the first 4 consecutive months in which a recipient has earnings in excess of the standard work expense and child care disregards. After 4 months, the benefit is determined without the $30 plus one-third disregard for each month the family continues to receive AFDC and for 12 consecutive months after AFDC is terminated.

In addition to the above changes relating to the counting of income, the committee approved an amendment limiting eligibility for AFDC to families with gross incomes at or below 150 percent of the State's standard of need. Another amendment permits States to take into account the value of benefits received from food stamps or housing subsidies. The new legislation also provides that in determining earned income for purposes of AFDC, the State must assume that an individual is receiving the earned income tax credit (EITC) advance payment that he is eligible to receive.

Other amendments further limiting eligibility and benefit payments include: requiring that a stepparent's income be counted in determining the family's benefit; providing eligibility for a pregnant woman with no other children only beginning with the 6th month of pregnancy; requiring that lump-sum payments be treated as income in the month of receipt and future months; establishing maximum asset limits; prohibiting payments to strikers; limiting a child's eligibility to those who are under age 18, or, at State option, under 19, but only if the child is a full-time student in a secondary or technical school and is expected to complete the program before he reaches age 19; limiting eligibility for the AFDC-Unemployed Parent program to those families in which the principal earner is unemployed; exempting AFDC parents from work requirements on the basis that they are caring for a child only if they are providing care for the child on a full-time basis; prohibiting States from making payments in amounts less than $10 a month; easing restrictions on the number of cases in which vendor payments may be made by a State, and allowing recipients to choose to have vendor payments made even though they could otherwise receive payments directly; and requiring States to "deem" the income and resources of the sponsor of an alien as available to the alien for 3 years after his entry into the United States.

In addition, the committee agreed to an amendment aimed at tightening the eligibility and benefit determination process by requiring States to adopt a retrospective accounting and monthly reporting system. Under the new system, a family's eligibility for benefits is determined on the basis of income and other factors in the current month; however, the amount of benefits is determined on the basis of income and other circumstances in the previous month. States must also require all recipients to provide monthly reports on income and other relevant factors (although the Secretary of HHS may allow a State to require less frequent reporting for some recipients if the State demonstrates that the administrative cost of monthly reporting for these recipients is not worthwhile). These new procedures allow the States to make monthly payments on the basis of information with respect to income which the family has actually received, rather than on the basis of anticipated income, which was previously the case in most States.

The 1981 amendments also provided for reducing Federal matching for costs of training employees of State or local agencies administering AFDC from 75 percent to 50 percent, beginning in fiscal year 1982.

In its budget recommendations for fiscal year 1983 the Administration again recommended changes in the AFDC program, aimed at reducing AFDC expenditures. The committee approved its own version of proposed changes for the AFDC program, which were reported as part of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248).

A major proposal of the Administration, which was approved by the committee, was for a new mandatory program of job search to be operated by State welfare agencies for AFDC applicants and recipients. Under prior law, job search programs were authorized to be conducted by State WIN agencies for both applicants and recipients of AFDC. However, participation was mandatory only for recipients. The committee's job search program is to be conducted by State welfare agencies, and both applicants and recipients who are required to register for WIN (or who would be required to register except for remoteness from a WIN site) may be required to participate. Individuals who fail to comply with the job search requirement are subject to sanctions in the same manner as under the WIN program. In conference with the House, the committee agreed to certain modifications of the proposal. As finally adopted by conferees, the program was made optional, rather than mandatory, with the States. States were given the option of limiting participation to certain groups or classes of individuals among those required to register for WIN, and of shortening the prescribed sanction period. The provision as enacted provides 50 percent matching for transportation and other services, and specifically requires payment of transportation and other costs necessarily incurred by the individual.

Other amendments approved by the committee prohibit payment of AFDC to families if the parent is absent solely because of active duty in the uniformed service; allow States to prorate the portion of the AFDC grant for shelter and utilities whenever the assistance unit shares the household with other individuals; and provide a new limitation on Federal financial participation in erroneous assistance expenditures made by the States in their AFDC programs. The current allowable error rate of 4 percent would be reduced to 3 percent beginning in 1984.

Two minor amendments aimed at limiting and targeting benefits include requiring States to round both their AFDC need standard and actual monthly benefit amounts to the next lower whole dollar, and prohibiting States from making benefits payable for any period prior to the date an application is filed. Any payment for the first month of eligibility must be prorated based on the date of application.

The 1981 Reconciliation Act required States to implement retrospective accounting. In certain circumstances payments may be based on income received two months back. A State which has such a lag between the month in which income is counted and the payment date sometimes supplements the AFDC payment with a wholly State-financed payment to meet unforeseen needs. A Senate amendment agreed to by the conferees and enacted as part of the Tax Equity Act allows such a supplement to be disregarded in determining the family's AFDC benefit.

A House amendment agreed to by the conferees and enacted as part of the 1982 Tax Equity Act allows States to continue to exclude from countable income, both in the month of receipt and in future months, certain special payments made by a State to children in AFDC families.

Several amendments proposed by the Administration and approved by the committee which related to the inclusion of specified individual needs and income in the family's AFDC benefit were dropped in conference.

Finally, H.R. 6211, the Highway Improvement Act of 1982 (P.L. 97-424), was amended on the Senate floor to allow States not to count as income certain types of assistance provided to help AFDC recipients meet their energy needs. (A parallel provision was added for SSI recipients.) Any such assistance in cash or kind may be excluded from income if it is based on the need for assistance with home energy costs and is furnished by a home heating oil or gas supplier or by a utility company (including a municipal utility) which provides home energy. Assistance of this type provided by a nonprofit organization may also be excluded from income, but only if it is in-kind assistance. The amendment applies to assistance provided from February 1983 through June 1985. The Secretary of Health and Human Services is required to report on the implementation of the amendment prior to April 1985.

THE CHILD SUPPORT ENFORCEMENT PROGRAM

The child support enforcement program, enacted near the close of the 94th Congress as title IV-D of the Social Security Act, mandates an aggressively administered program at both the Federal and State levels. The program provides for child support services, including support collection and establishment of paternity, for both AFDC and non-AFDC families. It leaves basic responsibility for these activities with the States, but provides for an active role on the part of the Federal Government in monitoring and evaluating State programs, in providing technical assistance and, in certain instances, in undertaking to give direct assistance to the States in locating absent parents and obtaining support payments from them. There is also provision for financial penalites to be imposed on States which, as a result of a Federal audit, are shown not to have an effective child support program.

To assist and oversee the operation of the State program, the Department of Health and Human Services is required to have a separate organizational unit under the direct control of an individual who has been designated by, and reports directly to, the Secretary. This responsibility is now placed with the Commissioner of Social Security. The Office of Child Support Enforcement reviews and approves State plans, evaluates and audits implementation in each State, and provides technical assistance to the States. There is also a legislatively mandated parent locator service within the child support office.

During the 96th Congress the committee recommended a number of changes in the child support program aimed at increasing program effectiveness. Of particular significance was the provision to make permanent a temporary provision of law under which States qualify for Federal matching funds to meet the costs of child support enforcement services for nonwelfare families. In addition, the committee recommended changes to strengthen the administration of the child support program, including increased Federal matching to encourage the adoption by the States of computerized management information systems, and provision for wage information under the control of the Social Security Administration or under the control of State unemployment compensation agencies to be made available, subject to appropriate safeguards, to child support enforcement agencies to assist them in carrying out their duties.

During the 97th Congress the committee recommended a number of changes which build upon the improvements made in prior years. Based upon the success of individual States in using their State tax systems for collecting delinquent child support payments, the committee recommended the implementation at the Federal level of a procedure to withhold Federal tax refunds due to absent parents of AFDC children. The new program for child support collection builds upon the authority which existed in prior law for collection by the IRS of amounts which represent delinquent child support payments.

The new procedures enacted in P.L. 97-35, works as follows. Upon receiving notice from a State child support agency that an individual owes past-due support which has been assigned to the State as a condition of AFDC eligibility, the Secretary of the Treasury is required to withhold from any tax refunds due that individual an amount equal to any past-due support. The withheld amount is sent to the State agency together with notice of the taxpayer's current address. The Secretary of the Treasury is required to issue regulations, approved by the Secretary of HHS, prescribing the timing and contents of notices by the States. States are required to reimburse the Federal Government for the cost of the procedure. "Past-due support" is defined as the amount of a delinquency determined under court order or an order of an administrative process established under State law for support and maintenance of a child, or a child and the parent with whom the child is living.

Public Law 97-35 also contained a provision to expand the existing State authority to enforce obligations for support of a child, to include, in addition, authority to enforce obligations for support of the parent with whom the child is living. Authority was added to use IRS collection procedures to collect support obligations with respect to the parent with whom the child is living and who is receiving AFDC (Prior law limited use of the IRS to collection of child support.) Under the new authority IRS collection procedures may also be used for the collection of obligations established by administrative process under State law. (Prior law limited their use to obligations established by court order.)

As a part of the 1981 Reconciliation Act (P.L. 97-35), the committee recommended an amendment to reverse the effect of an amendment made by section 328 of Public Law 95-598 and reinstate a provision of the Social Security Act, previously in effect, declaring that a child support obligation assigned to a State as a condition of AFDC eligibility is not discharged in bankruptcy.

Another provision included in Public Law 97-35 relating to the child support program was a recommendation of the Committee on Ways and Means to require child support enforcement agencies to determine on a periodic basis whether any individuals who owe child support obligations enforceable by the agency are receiving unemployment compensation or trade adjustment assistance benefits. Under this intercept of unemployment benefits provision, the child support enforcement agency is required to collect any outstanding child support obligations owed by an individual receiving unemployment benefits—through an agreement with the individual or, in the absence thereof, the legal processes of the State—by having a portion of the individual's unemployment benefits withheld and forwarded to the State child support agency. As a condition for receipt of Federal administrative grants under title III of the Social Security Act, agencies charged with administration of the State unemployment compensation laws are required to withhold and forward to the child support agency the amount of the individual's unemployment benefits specified in the agreement or otherwise required to be withheld as a result of legal process. Amounts withheld are forwarded to the child support agency.

The Committee on Finance approved, as an amendment to the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248), a new procedure for improving child support collection on behalf of children of members of the uniformed services. The committee amendment adds a new section to title IV-D of the Social Security Act to require allotments from the pay and allowances of any member of the uniformed service (on active duty) when he fails to make child (or child and spousal) support payments. The requirement would arise when the servicemember failed to make support payments in an amount at least equal to the value of 2 months' worth of support. Provisions of the Consumer Credit Protection Act will apply so that the percentage of the member's pay which is subject to allotment is limited. The amount of the allotment is the amount of the support payment, as established under a legally enforceable administrative or judicial order.

During the 97th Congress the committee also undertook to resolve the issue of the amount and the nature of the fee which States may charge to non-AFDC families who request child support services. Prior to the Omnibus Budget Reconciliation Act of 1981, States had the option of charging non-AFDC families a reasonable fee and then retaining a portion of any child support collection to pay for administrative expenses not covered by the fee. Under the Reconciliation Act provisions, States retained the option of charging non-AFDC recipients a reasonable application fee, but were required to charge a fee equal to 10 percent of the support collected. The 10 percent fee was required to be charged against the absent parent and added to the amount to be collected.

States reported that because of legislative barriers and administrative difficulties, they were unable to implement the requirement that the collection be charged only against the absent parent. The result was that they were unable to recover costs by using the 10 percent fee provision.

In 1982 the committee recommended repealing the provisions enacted in Public Law 97-35 which required States, in cases involving non-AFDC families, to charge any absent parent who was obligated to pay child support through the State Child Support Enforcement Agency a fee equal to 10 percent of the child support payment. The amendment restored the law in effect prior to Public Law 97-35 which allows States to charge a reasonable fee for a non-AFDC collection and retain from the amount collected an amount equal to administrative costs not covered by the fee. The amendment also retains, as a State option, the authority to collect from the parent who owes child or spousal support an amount to cover administrative costs, in addition to the child support payment.

The amendment provides that if a State elects to deduct such costs from the amount of any recovery made, the State must have in effect a procedure under which the court or other entity which determines the amount of the support obligation will be notified of the amount by which any support collection will be reduced to reimburse the costs of collection. This will allow the court, if it finds such action appropriate, to increase the support order so that the income provided to the family will not be reduced.

Another recommendation of the committee included in Public Law 97-248 requires that amounts collected which are sufficient to make a family ineligible for AFDC will be paid to the family in months after the first month of ineligibility. Previously, amounts collected which were sufficient to make the family ineligible for AFDC had to be paid to the family beginning with the first month of ineligibility. This change allows the State to reimburse itself for AFDC that would have already been paid for that month, before the support was collected and known to have made the family ineligible. Thus, the family would not receive double payment for the same month, once in the form of AFDC, and once as a result of the child support collection.

Included in Public Law 97-248 is a Ways and Means Committee provision agreed to by the Senate in a conference on that bill which reduced Federal matching for State administrative costs from 75 percent to 70 percent, effective October 1, 1982. Also under the conference agreement, child support incentive payments are reduced from 15 to 12 percent, effective October 1, 1983, and Federal matching for the costs of court personnel are repealed, effective October 1, 1983.

CHILD WELFARE, FOSTER CARE AND ADOPTION ASSISTANCE

The fundamental purpose of the program of aid to families with dependent children was to encourage the care of dependent children in their own homes or in the homes of relatives. In 1961, however, the program was broadened to permit federally matched assistance payments also for children who had been removed from their homes and placed in foster care in order to give the States an alternative to leaving children in unsuitable homes or caring for them elsewhere without Federal participation in the cost.

The foster care element of the AFDC program was applicable only to children who would have been AFDC recipients if they remained in their own homes, and who had been removed from those homes by court order. Apart from this provision, financial responsibility for foster care and for other services directed at children not in their own homes has remained primarily with State and local governments. Although the original Social Security Act of 1935 provided for some assistance to the States in this area through the program of grants for child welfare services, the level of funding for that program has always been quite small relative to total State and local costs. In fiscal year 1979, for example, States reported total child welfare service costs of approximately $800 million (of which nearly $600 million was for non-AFDC foster care); the Federal funding provided for that year was $56.5 million.

In the 96th Congress, the Finance Committee completed a review begun in the previous Congress of the incentive structure of these programs. Hearings on proposals related to these programs were held by the Subcommittee on Public Assistance. While the committee found that the programs continued to serve an important purpose, the committee also determined that they were structured in a manner which provided certain undesirable financial incentives. Under the law as it had existed since the 1960's States were entitled on an open-ended basis to Federal matching assistance for any children who could be placed and maintained in AFDC foster care. By contrast, State efforts to provide services to prevent the need for foster care or to place children in adoptive homes would have to be met with State or local funds in view of the size and relationship of Federal and non-Federal funding for these purposes through the child welfare services program.

The Finance Committee recommended legislation enacted in 1980 to modify these incentives in such a way as to encourage, wherever possible, the permanent placement of children either by keeping them in their families or by adoption. The 1980 amendments authorize open-ended Federal matching for adoption assistance payments where States are able, by providing such assistance, to find adoptive homes for hard-to-place children who would otherwise have remained in AFDC foster care. At the same time, the amendments end the open-ended nature of Federal funding for AFDC foster care, establishing an overall limit for Federal funding of this program in fiscal years 1981–84. The amendments also reorganized the child welfare services program with a view towards increased funding of that program; States were encouraged to review the appropriateness of foster care placements, and to facilitate either the return of children to their own home or their adoption.

In its 1982 budget proposal, the Administration proposed the consolidation of 12 social services programs, including title XX and the child welfare, foster care and adoption assistance programs, into a single social services block grant to the States. The legislation approved by the Finance Committee provided for the combination into a block grant of the title XX and child-related programs only. The committee amendment repealed the existing provisions of the title XX social services program, the child welfare services program, and the foster care and adoption assistance programs. In place of these provisions, a new title XX social services program was to be established on a block grant basis. Within the new title XX, the committee amendment made special provision for child welfare, adoption assistance, and foster care so as to asssure that States, in operating the new block grant program, would achieve the objectives of those programs as amended by the Adoption Assistance and Child Welfare Act of 1980. However, in conference with the House, the committee agreed to retain these programs in the form provided by the 1980 Act.

The Administration's 1983 budget included a recommendation to combine the child welfare services, foster care and adoption assistance programs into a single block grant program. The committee again decided to retain these programs in the form provided in the 1980 legislation.

TITLE XX—SOCIAL SERVICES

Federally funded social services for welfare recipients have been authorized under various provisions of the Social Security Act since 1956. The program operated as an open-ended entitlement to States and spending grew rapidly in the late 1960's until a nationwide Federal expenditure ceiling was imposed in 1972. The different provisions in the Social Security Act authorizing services were consolidated into a new title XX, enacted in 1974, which authorized additional funds beyond the ceiling for training. The original ceiling of $2.5 billion was raised several times and, in fiscal year 1981, had reached a level of $2.9 billion, plus $16 million for the territories and $75 million for training. This ceiling was scheduled to rise further until it reached $3.3 billion in fiscal year 1985.

As it operated prior to enactment of the Reconciliation Act of 1981, title XX provided 75 percent Federal financing for most social services, except family planning which was 90 percent federally funded and certain day care services which received 100 percent Federal funds. Training also was matched at a 75 percent Federal rate. The law required at least half of each State's Federal allotment to be used for services to recipients of Aid to Families with Dependent Children, Supplemental Security Income or Medicaid. Remaining funds could be used to provide services to anyone whose income did not exceed 115 percent of the State's median income. Fees were mandatory for individuals with incomes between 80 percent and 115 percent of State median income. States also had to follow a specified planning and public participation process.

As part of its fiscal year 1982 budget proposals to Congress, the Administration proposed a consolidation of 12 social services programs, including title XX, into a single block grant to States. The Administration proposed to include a number of child welfare programs, vocational rehabilitation and the Community Services Administration in this block grant, along with title XX. Under the proposal developed by the Congress, a new social services block grant was created, but it includes only activities previously authorized under title XX and does not consolidate the remaining programs proposed by the Administration.

The new title XX legislation is designed to give States greater flexibility in the use of their social services funds, and to simplify and streamline their administrative procedures. The overall aim of the committee in approving the block grant legislation was to enable States to make the most effective use of the funds available to them. These changes were enacted as part of the Omnibus Budget Reconciliation Act of 1981 (P.L. 97-35).

Title XX provides that each State is entitled to an annual allotment for operating social services programs aimed at meeting the following goals:

(1) Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency;

(2) achieving or maintaining self-sufficiency, including reduction or prevention of dependency;

(3) preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating, or reuniting families;

(4) preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and

(5) securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

The amount of the allotment for each State is its share of a national total of $2.4 billion in 1982, $2.45 billion in 1983, $2.5 billion in 1984, $2.6 billion in 1985, and $2.7 billion in 1986 and years thereafter. Allotments are based on State population. (The allotment for Puerto Rico, Guam and the Virgin Islands and the other Mariana Islands is based on their share of the amounts alloted to them in 1981 under title XX, reduced to reflect the new funding levels.)

As under prior law, the program operates as an appropriated entitlement in which the Federal Government is obligated to appropriate an amount sufficient to meet all qualified State expenditures up to the amount of the State allotment. There is no non-Federal matching requirement, and States may claim funds within their allotments for expenditures in the fiscal year to which the allotment applies or in the following year. Each State may transfer up to 10 percent of its annual title XX allotment for expenditures under health, or energy assistance block grant programs.

Expenditures for services may include expenditures for administration (including planning and evaluation); personnel training and retraining directly related to provision of those services (including both short- and long-term training at educational institutions through grants to institutions or by direct financial assistance to students); and conferences or workshops, and training or retraining through grants to nonprofit organizations or to individuals with social services expertise.

Before expending funds under the new title XX program for any fiscal year, States must develop and make public a report on how the funds are to be used, including information about the types of activities to be funded and the characteristics of the individuals who will be serviced. This report may be revised throughout the year, as necessary and must be submitted to the Secretary.

Each State determines the types of services to be provided, and, unlike prior law, there is no requirement that a specific portion of the funds be used for welfare recipients, or that services be limited to families with incomes below 115 percent of State median income.

Title XX funds may not be used for the following specified purposes:

(1) The purchase or improvement of land or buildings;

(2) room and board cost (except for certain short-term or emergency shelter);

(3) wage payments other than payments under the provisions for subsidizing the costs of hiring welfare recipients in child care jobs;

(4) medical care (except where it is an integral part of another service) other than initial detoxification of an alcoholic or drug dependent individual, family planning services, or rehabilitation services;

(5) institutional services provided by the institution (except for rehabilitation services or services for alcoholic or drug dependent individuals);

(6) educational services which are generally available; and

(7) services in the form of cash payments.

The Secretary of HHS has authority to waive the prohibition against medical services and against the purchase or improvement of land or buildings where he finds extraordinary circumstances justify such uses.

Child care provided with title XX funds must meet applicable State and local laws. Provisions in prior law are continued which authorize use of social services funds to make grants to qualified day care providers to pay wages (with specified restrictions) of welfare recipients hired as day care workers.

States are required at least every 2 years to prepare and make available reports showing in detail how the program funds were expended and demonstrating that such expenditures meet the requirements of title XX. The report also must be transmitted to the Secretary. In addition, States are required to audit their programs at least every 2 years (with the audit being conducted by an entity which does not receive title XX funds). Any amounts expended which do not comply with title XX requirements may be recovered by the Federal Government.

SUPPLEMENTAL SECURITY INCOME

The supplemental security income program (SSI), administered by the Social Security Administration, provides income assistance for needy, aged, blind, and disabled persons. This program was enacted in 1972 and commenced operations in January of 1974. The program currently provides benefits sufficient to bring the income of an aged, blind, or disabled person up to $284.30 per month ($426.40 for an eligible couple). (These amounts are automatically increased each July to reflect cost-of-living changes.) In determining benefits, $20 of monthly income from any source is not counted and additional amounts of income from employment may also be disregarded. In many States these Federal benefit levels are further increased by State-funded supplementary payments.

In October 1982 there were 3.9 million aged, blind and disabled recipients receiving federally administered benefits. Of the total in that month, more than 2.2 million came onto the rolls as the result of being determined to be disabled (429,000 of these individuals have now reached age 65, but are still listed by the Social Security Administration as being disabled).

During the 96th Congress the Committee on Finance reported, and the Congress enacted, a number of provisions designed to strengthen the SSI and DI disability determination process and to provide incentives for disabled persons to seek employment.

Only relatively minor changes in the SSI program were agreed to by the committee during the 97th Congress. As part of its goal of improving the administration of public welfare programs, the committee recommended changing the quarterly prospective method of accounting for SSI to a monthly retrospective system. Under the quarterly prospective system which was previously in effect, a recipient's benefits were determined on the basis of income anticipated in the calendar quarter. Errors in payments were unavoidable in that it is not possible to anticipate all changes in income and circumstances that may occur in the future. The monthly retrospective basis of payment endorsed by the committee makes it possible to avoid these kinds of errors and the overpayments which result from them. This change was enacted by the Congress as part of the Omnibus Reconciliation Act of 1981 (P.L. 97-35), and was later modified in the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). Under Public Law 97-248, an exception to retrospective accounting was provided whereby increases in OASDI benefits, including OASDI cost-of-living adjustments (COLA), in the month that an SSI COLA becomes effective and in the following month will be taken into account as income in such months. This provision also provides that other changes in income and relevant circumstances may, at the Secretary's option, be taken into account in the month that the change is expected if there is reliable information available concerning the change.

The 1981 Reconciliation Act also included a House provision, accepted in conference, dealing with the problem of unnegotiated SSI checks. The new law requires the Secretary of the Treasury, on a monthly basis, to notify the Secretary of HHS of all benefit checks which have not been presented for payment within 180 days after the date of issuance. The Secretary of HHS is then required to return (or credit) amounts which represent State supplementary payments to the State. States will thus be able to recover State funds which were previously held by the Treasury for indefinite periods. In addition, the Social Security Administration is required under the new legislation to attempt to determine the whereabouts and eligibility of recipients whose checks were not negotiated within 180 days of issuance. This provision was later modified slightly by Public Law 97-248.

The 97th Congress also dealt with the problem of SSI ineligibility caused by the possession of burial spaces, and funds set aside for burial. Under prior law, individuals were sometimes ineligible for SSI because the possession of these spaces or funds caused them to have assets in excess of the amounts allowable in the law. The new law, which represents a compromise between a Ways and Means Committee provision and a Senate floor amendment, was enacted as part of the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). It excludes burial spaces as a resource (subject to limits prescribed by the Secretary), and also excludes burial funds if thev are specifically set aside for this purpose, up to a maximum of $1,500 for an individual (or $2,250 for married couples). The Secretary is authorized to exclude as income and resources increases in the value of amounts set aside for burial expenses because of interest earned, and exclude as income and resources any appreciation in the value of specified prepaid burial arrangements.

The committee approved, and the Congress enacted, several provisions designed to limit SSI expenditures through better targeting of funds. Public Law 97-248 included a provision requiring that any payment for the first month of eligibility must be prorated based on the date of application or the date of eligibility, whichever is later. Previously, benefits were payable beginning with the first of the month in which the application was filed. Public Law 97-248 also included a provision for rounding SSI monthly benefit and income eligibility amounts to the next lower dollar instead of rounding to the next higher ten cents as provided in prior law. Public Law 97-35 limited payment to State vocational rehabilitation agencies by authorizing reimbursement only for services provided to SSI recipients who subsequently perform substantial gainful activity which lasts for a continuous period of 9 months. This conference agreement modified a committee amendment.

The Congress enacted a Senate amendment to H.R. 6211, the Highway Improvement Act of 1982 (P.L. 97-424), aimed at assisting SSI recipients who need help in meeting their home energy needs. SSI law generally requires that all income, with only limited specified exclusions, be counted in determining SSI benefits.

The new amendment, offered on the Senate floor, adds to the items which are not counted as income certain types of assistance provided to help SSI recipients meet their energy needs. Any such assistance in cash or kind must be excluded from income if it is based on the need for assistance with home energy costs and is furnished by a home heating oil or gas supplier or by a utility company (including a municipal utility) which provides home energy. Assistance of this type provided by a nonprofit organization must also be excluded from income, but only if it is in-kind assistance. The amendment applies to assistance provided from February 1983 through June 1985. Prior to April 1985, the Secretary of Health and Human Services is required to report on the implementation of the amendment.

The 97th Congress also enacted an amendment (in P.L. 97-35) to allow the States that had previously been providing cash in lieu of food stamps to SSI recipients to continue to do so, as long as they continue to meet certain specified conditions (California and Wisconsin currently are exercising this option.)

The Finance Committee approved an amendment to phase out "hold harmless" protection that had been provided when the SSI program was enacted. This provision in the original law was designed to enable States to supplement the Federal payment to assure that recipients would receive cash benefits equal to their January 1972 benefit levels, with no cost to the State beyond what was spent for benefits on behalf of aged, blind and disabled persons under the State program in 1972. Because of Federal benefit increases since that time, all except two States—Hawaii and Wisconsin—have lost their hold harmless status. These two States still receive a Federal contribution to their State supplements because of a special provision added to the law in 1976. Under this provision their hold harmless payments are no longer reduced by Federal benefit increases. The 1982 Continuing Resolution provided a reduction in hold harmless payments for Wisconsin and Hawaii. The Finance Committee amendment continued phasing out the hold harmless payments. Payments were reduced to 40 percent of what they would otherwise be in 1983, to 20 percent in 1984, and with no hold harmless payments made in 1985 and years thereafter. This provision was included in Public Law 97-248.

Public Law 97-248 also included a Ways and Means Committee provision modifying prior law related to the requirement that States pass through Federal SSI cost-of-living increases. Under prior law, a State could meet this requirement by either (1) maintaining the December 1976 level of State supplementation payment for recipients, or (2) providing no less than the total aggregate amount of State supplementation paid by the State in the previous 12-month period. The new provision would allow a State to meet the pass-through requirement if the State did not decrease the State supplementation payment below the level in the previous December instead of the December 1976 level required under present law.

UNEMPLOYMENT COMPENSATION

Most employment in the United States is covered under the Federal-State unemployment compensation program. Covered workers who become unemployed qualify for benefits under conditions specified by State laws, which meet certain general requirements of the Federal statute. Regular State benefits funded from State unemployment payroll tax. The Federal Government pays all administratimes of high unemployment, up to 13 additional weeks of benefits are available under the Federal-State extended unemployment compensation program. These extended benefits are funded from State unemployment tax funds and half from the Federal unemployment payroll tax. The Federal government pays all administrative costs. Also, the temporary Federal Supplemental Compensation program provides 8 to 16 additional weeks in all States, depending on unemployment in each State. General revenues finance this program, which expires on March 31, 1983.

The 1973-75 recession found many State unemployment compensation programs with inadequate reserves to cover the increased cost of unemployment benefits. Under Federal law at that time these States qualified for substantial interest-free loans from the Federal unemployment trust fund accounts, which in turn borrowed from Federal general revenues. The enactment of legislation easing requirements for Federal-State extended benefits and providing for a special Emergency Unemployment Compensation program further strained the financing of the unemployment compensation program. At the end of calendar year 1982, loans to the State unemployment trust funds totaled $10.6 billion.

In the first session of the 97th Congress, in accordance in the administration proposals, the committee recommended: (1) exclusion of extended benefits recipients from the insured unemployed population used to calculate the State trigger insured unemployment rate; (2) an increase in the mandatory extended benefits trigger to 5 percent and the optional trigger to 6 percent; (3) a requirement that extended benefits claimants must have worked at least 20 weeks for have its equivalent in wages in the 1-year base period to qualify or benefits; (4) a disqualification for ex-service members who voluntarily left the service and refused reenlistment; (5) interest charges on certain new loans to States; and (6) a cap on the automatic Federal unemployment tax rate increases on employers in States with delinquent Federal advances. The Congress enacted the committee recommendations with some modifications in the Omnibus Budget Reconciliation Act of 1981.

Effective April 1, 1982 through December 31, 1987, States must pay interest on new Federal advances to their accounts in the Unemployment Trust Fund that are not repaid by the end of the fiscal year in which they are obtained. The interest rate will be the same rate paid on the State account balances in the Unemployment Trust Fund for the fourth quarter of the previous calendar year up to 10 percent per annum. The States may not, however, pay the interest directly or indirectly from funds in their State accounts of the Unemployment Trust Fund. For example, a State may not lower its State unemployment taxes after paying the interest to compensate for financing the payment of interest from some other revenue source. If the Secretary of Labor determines that a State has paid the interest directly or indirectly from the State unemployment account, the Secretary shall not certify the State's unemployment compensation law. Loss of certification means that the State's employers would pay the 3.5 percent gross Federal unemployment tax rate because they would no longer be eligible for the Federal unemployment tax credit.

Interest on advances will not be charged if a State: (1) repays its advances in full before the end of the fiscal year in which it obtained the advance; and (2) obtains no additional advances before the end of the calendar year in which it repaid the advance. A State must pay interest no later than the first day of the next fiscal year if it does not repay the advance before the end of the fiscal year in which it was obtained. If a State obtains another advance before the end of the calander year in which it repaid an advance before the end of the fiscal year in which it obtained the advance, interest on the repaid advance must be paid for the period preceding the end of the fiscal year in which the State had the advance not later than the day after the date on which the State obtained the new advance.

Any State repayment of Federal advances resulting from the automatic Federal unemployment tax credit reductions triggered by overdue outstanding advances will be applied to the earliest advances. Voluntary repayments, however, will be applied to the latest advances. In this way, States with outstanding advances from previous fiscal years can voluntarily repay advances obtained within the fiscal year in order to avoid interest charges, while continuing to repay older advances through the Federal unemployment tax credit reduction. Also, the amendment allows States to defer payment of interest on advances obtained in the last 5 months of a fiscal year until the last day of the next taxable year. The interest charged on these advances, however, would be the same as if this deferral of payment did not exist, including interest on the deferred interest payment.

Effective January 1, 1981 through December 31, 1987, the Federal unemployment tax credit reduction automatically imposed on States with overdue outstanding advances will be limited to the higher of 0.6 percent or the reduction in effect during the preceding calendar year if the State meets certain solvency requirements. There are four requirements. The first two apply to taxable years 1981 through 1987 and the last two apply to taxable years 1983 through 1987. The Secretary of Labor must determine that the State has met these conditions by November 10 of the taxable year to which they apply:

(1) The State did not reduce its unemployment tax effort in the fiscal year ending in the taxable year to which the credit reduction applies.

(2) The State did not act in a way that caused a net decrease in solvency of its unemployment compensation program in the fiscal year ending in the taxable year to which the credit reduction applies.

(3) The State unemployment tax rate on total wages in the taxable year equals or exceeds the average 5-year benefit-cost rate for the State in which total wages instead of taxable wages is used as the denominator.

(4) The State's outstanding advances at the end of fiscal years 1983 and 1984 must not exceed that at the end of 1981. Thereafter, the State's outstanding advances at the end of fiscal years 1985, 1986, and 1987 must not exceed that in fiscal years 1982, 1983, and 1984, respectively.

Additional provisions dealing with taxes and benefits to be counted in the calculation of the average tax rate on total wages and the 5-year benefit-cost rate used in the third solvency requirement make it easier for States to qualify for the limit. While a State qualifies for the credit reduction limit, each January first that passes will not be counted in determining a subsequent credit reduction when it no longer qualifies for the limit. Consequently, when a State no longer qualifies for the credit reduction limit, its credit reduction process continues on the next step after the step at which it was when it qualified for the limit.

In the second session of the 97th Congress, the committee adopted an Administration recommendation that the 50 percent Federal share of extended benefits not be available on the part of the extended benefits payments resulting from a State not rounding the weekly benefit amounts down to the next lowest dollar. It also recommended an increase in the Federal unemployment taxable wage base and tax rates. The taxable wage base increases to $7,000 in 1983. The tax rates increase as follows: (1) in 1983 the gross rate increases to 3.5 percent; (2) in 1985 the gross rate increases to 6.2 percent; and (3) in 1985 the credit rate increases to 5.4 percent. These three rate changes make the minimum, net Federal unemployment tax rate a constant 0.8 percent, but increase the maximum tax rate on States with delinquent Federal advances from 3.5 percent in 1983 and 1984 to 6.2 percent in 1985.

The committee recommendations were enacted with amendments in the Tax Equity and Fiscal Responsibility Act of 1982 (P.L. 97-248). This Act amended not only the financing of unemployment compensation, but also changed some coverage provisions, created a Federal Supplemental Compensation (FSC) program, authorized a Department of Labor study of short time compensation plans due by October 1, 1985, extended the authority to use certain "Reed Act" funds, and lowered the levels of adjusted gross income above which unemployment compensation is subject to personal income taxes.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) made the following major changes:

(1) Increase in Federal Unemployment Tax Act (FUTA) wage base and rate.

(a) Effective beginning in 1983, the Federal taxable wage base increased to $7,000.

(b) Effective beginning in 1983, the gross FUTA rate increased from 3.4 percent to 3.5 percent, making minimum, net FUTA rate 0.8 percent and the maximum potential FUTA rate in debtor States 3.5 percent.

(c) Effective beginning in 1983, the fraction of the minimum, net FUTA revenue allocated to the Extended Unemployment Compensation Account (EUCA) increased from five-fourteenths or about 35.7 percent to 40 percent or from 0.25 to 0.32 percentage points. This accelerated the rate at which the EUCA repays its debt to the General Fund.

(d) Effective beginning in 1985, the gross FUTA rate increases to 6.2 percent and the credit increases to 5.4 percent, maintaining the minimum, net FUTA rate at 0.8 percent, but raising the maximum potential tax rate in debtor States from 3.5 percent to 6.2 percent. This will force many States to raise their maximum State tax rates to at least 5.4 percent and will force any State tax rates below 5.4 percent to be "experience rated." If these States do not make the appropriate changes, their employers would lose the 5.4 percent FUTA credit. Employers covered by State law that currently permit a constant tax rate (not "experience rated") of at least 2.7 percent but less than 5.4 percent will be allowed, however, to phase in the required increase over a 5-year time span at a rate of at least 20 percent per year.

(2) Credit reductions not to apply when a State makes certain repayments.

Effective beginning in 1983, a State may avoid FUTA credit reduction by meeting the following requirements: (a) it must repay any advances obtained for the year prior to November 10; (b) it must pay the potential additional FUTA taxes resulting from the credit reductions; (c) it must have a balance in its State account of the Unemployment Trust Fund that can cover 3 months' worth of benefits beginning on November 1; and (d) it must have enacted a net increase in program solvency after the later of the date of enactment of this provision or the date on which it obtained the first advance considered in determining the credit reduction.

(3) Limitation on fifth year reduction.

Effective beginning in 1983, a State may avoid the additional potential FUTA credit reduction coming into effect in the fifth year in which it has an outstanding Federal loan if it has taken no action during the fiscal year ending on September 30 of the tax year that decreased the solvency of its UI program.

(4) Deferral of interest in case of certain States with high unemployment rates.

Effective for interest due after December 31, 1982, a State may pay 25 percent of the amount due in each of 4 years if it had an insured unemployment rate under the EB program of at least 7.5 percent for the first 6 months of the preceding calendar year. Interest on the deferred interest, however, would accrue.

(5) Required repayments from Extended Unemployment Compensation Account.

Repayments of General Fund advances to the Extended Unemployment Compensation Account (EUCA) would be required whenever the Secretary of the Treasury in consultation with the Secretary of Labor determined that it contained enough funds to cover the Federal share of 3 months worth of Extended Benefits.

The Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA) made five changes in coverage: (1) permitted States to deny Unemployment Compensation (UC) between terms to employees of higher educational institutions who do not work in research, principal administrative, or instructional capacities; (2) exempted certain student interns of any age; (3) exempted full-time students who work in certain seasonal camps; (4) exempted certain alien workers through 1983; and (5) extended the exemption for certain fishermen for 1 year through 1982.

TEFRA also extended the authority for States to use "Reed Act" funds for 10 years and lowered the levels of adjusted gross income above which unemployment compensation is taxable.

The Reed Act provides for the transfer of any excess Federal Unemployment Tax Act (FUTA) receipts to the individual State accounts in the Unemployment Trust Fund. Each State's share is proportionate to its share of wages subject to FUTA taxes. Excess funds had occurred only three times since the passage of the Reed Act in 1956, 1957, and 1958. Authority to use funds credited in 1956 and 1957 for administrative purposes had expired and authority to use funds credited in 1958 for administrative purposes would have expired on July 1, 1983.

TEFRA extended for 10 years the authority for States to use Reed Act funds for administrative purposes. It also permitted States that have used such funds to pay unemployment benefits to reestablish a Reed Act account.

The amount of State and Federal unemployment insurance benefits included in adjusted gross income for income tax purposes was equal to the lower of:

(a) the amount of unemployment benefits paid, or

(b) one-half of the excess of adjusted gross income, unemployment benefits, and excludable disability income over $20,000 for single taxpayers, $25,000 for married taxpayers filing jointly, or zero for married taxpayers filing separately.

TEFRA reduced the income thresholds limiting inclusion of unemployment benefits in adjusted gross income to $12,000 for single taxpayers and $18,000 for married taxpayers filing jointly. Penalties for underpayment of estimated tax for 1982 attributed to this change would be waived.

TEFRA also authorized a new Federal Supplemental Compensation (FSC) program that provided 6, 8, or 10 additional weeks of unemployment compensation to people who have exhausted their entitlements to all unemployment compensation. Individuals in States that had an activated extended benefits program between June 1, 1982 and the FSC program expiration date of March 31, 1983 were eligible for one-half of their regular program duration up to 10 weeks of FSC. Individuals in States not qualifying for 10 weeks could receive up to 8 weeks if they are in States with insured unemployment rates of at least 3.5 percent. All other individuals could receive up to 6 weeks of FSC. Funding for FSC comes from general revenues.

Also in the 2d session, Congress repealed the provision, added in the Omnibus Budget Reconciliation Act of 1981, disqualifying those who voluntarily rejected a reenlistment opportunity in the military and made further changes in the Miscellaneous Revenue Act of 1982 (P.L. 97-362). Two qualification conditions were added. First, the individual must have been discharged or released after completing the first full term of active service, which the individual initially agreed to serve. Second, if the individual does not meet the first condition, the individual must have left the active service: (a) for the convenience of the Government in an early release program; (b) because of medical disqualification, pregnancy, parenthood, or service-incurred injury or disability; (c) because of hardship; or (d) because of personality disorders or inaptitude but only if service was for at least 365 continuous days. Also, benefits were limited to 13 weeks, payable after a waiting period of 4 weeks.

Additionally, the postelection session of the 97th Congress extended the FSC program entitlement by 2, 4, or 6 weeks in the Surface Transportation Assistance Act of 1982 (P.L. 97-424). Beginning with the week of January 9, 1983, this provided a combined maximum of between 8 and 16 weeks until the program expiration date of March 31, 1983. The total weeks available for individuals varied by State as follows:

(1) Sixteen weeks in States with an insured unemployment rate (IUR) of at least 6.0 percent;

(2) fourteen weeks in States that were triggered on the extended benefits program between June 1, 1982 and January 6, 1983;

(3) twelve weeks in States with an IUR of at least 4.5 percent that have not been triggered on the extended benefits program between June 1, 1982 and January 6, 1983;

(4) ten weeks in States with an IUR of at least 3.5 percent, but less than 4.5 percent and that have not been triggered on the extended benefits program between June 1, 1982 and January 6, 1983;

(5) eight weeks for all other States.

MEDICARE AND MEDICAID

During the 97th Congress, the Committee on Finance continued its interest and involvement in health care financing issues. While the majority of time was spent in budget related issues, the committee also concerned itself with oversight of the programs within its jurisdiction.

The Subcommittee on Health held 10 hearings and addressed a wide range of health issues including: coverage of rural health clinics, reimbursement for the treatment of end stage renal disease, competitive contracting for the administration of medicare claims, improvements in utilization and quality control peer review, State hospital payment systems, medicare payment for alcoholism treatment, hospital reimbursement systems used by private third party payers, and health maintenance organization reimbursement. In addition, the full committee held a joint hearing with the Senate Special Committee on Aging to review the activities of the Inspector General's Office, Department of Health and Human Services, in combating fraud, abuse, and waste in medicare, medicaid, social security, and other Federal programs administered by the Department.

As noted, much of the work of the committee was related to efforts to reduce the rate of growth in the medicare and medicaid programs. On May 5, 1981, the committee agreed to specific cost saving provisions in order to reduce spending as required by reconciliation. The committee's spending reduction package was incorporated in the recommendations transmitted to the Senate Budget Committee.

The Senate Finance Commitee provisions provided for a limit on the increase in Federal medicaid expenditures, a reduction in the minimum Federal medical assistance percentage, and provided States with additional flexibility in designing their medicaid programs. The package also included a number of modifications to the medicare program. These included the deletion of several provisions incorporated in the Omnibus Reconciliation Act of 1980, increases in cost sharing requirements for beneficiaries, and provisions to make medicare the secondary payor during the first 12 months of treatment for end-stage renal disease and secondary payor under the Federal employees health benefits program. Although not all of these reductions were included in the final measure, when the Omnibus Budget Reconciliation Act of 1981 was signed into law on August 13, 1981, the 3-year combined program savings attributed to the provisions agreed to by the Finance Committee were: medicare $4.4 billion, medicaid $2.8 billion.

The committee also considered and agreed to major changes in the Maternal and Child Health program. The committee bill amended title V of the Social Security Act to establish a Maternal and Child Health block grant. The major purpose of establishing this block grant was to consolidate related programs for mothers and children.

On June 24, 1982, the Senate Committee on Finance began consideration of a number of measures to achieve reductions in medicare and medicaid outlays, pursuant to the instructions contained in the First Concurrent Resolution on the Budget. On July 12, 1982, the committee reported the "Tax Equity and Fiscal Responsibility Act of 1982" (TEFRA).

TEFRA, as reported by the committee, included substantial changes in the existing medicare hospital reimbursement system and in provisions relating to Health Maintenance Organizations (HMO's). It authorized several changes in program coverage similar to those which have been recommended by the administration. Further, it authorized several changes in beneficiary cost-sharing requirements including establishing copayments for home health services, indexing the Part B deductible, and holding the Part B premium to a constant percentage of program costs. With respect to medicaid, the bill contained provisions allowing States to require nominal copayments for most services, eliminating the matching for the medicare Part B buy-in, allowing States to impose liens, and reducing the tolerance level for eligibility error rates. The legislation also provided for the establishment of a utilization and quality control peer review program to replace the existing PSRO program.

As enacted, on September 3, 1982, the 3-year medicare savings of $13.3 billion incorporated in TEFRA are primarily attributable to the reductions in provider payments considered by the Finance Committee. These include expanding existing hospital reimbursement limits to include ancillary costs, establishing a 3-year target reimbursement system, and providing for the development of a prospective payment system. Also, incorporated into TEFRA, as enacted, are 3-year medicaid savings of $1.1 billion.

The total combined 4-year savings achieved during the 97th Congress amounted to $21.6 billion: $17.7 billion in medicare and $3.9 billion in medicaid.

In other legislative action, H.R. 6056, the Technical Corrections Act of 1982, was reported by the committee on September 27, 1982. Committee amendments, in addition to making various clerical and corrective changes in TEFRA, (1) allowed States whose Federal medical assistance percentage decreased between fiscal year 1981 and fiscal year 1982 to receive recognition for a reduction in Federal spending that resulted from the change, (2) conveyed the committee's intention that existing PSRO's compete on an equal footing during contract negotiations under the peer review system authorized by TEFRA, and (3) permitted the Secretary to continue certain hospice demonstration projects until September 30, 1986, the sunset date for the hospice care provision contained in TEFRA.

LEGISLATIVE REVIEW OF INTERNATIONAL TRADE

During the 97th Congress, the principal activities of the committee on international trade matters included an examination of the operation of the international trading system, and a review of several of the codes concluded during the 1979 Multilateral Trade Negotiations and domestic laws implementing those codes. The committee also examined market access opportunities for American goods, services, and foreign direct investment. In addition, the committee reviewed U.S. objectives at the meeting of trade ministers held in November 1982.

Legislatively, the principal legislative activities of the committee on international trade matters included the following:

(1) H.R. 4566, a miscellaneous tariff bill to eliminate, reduce, or temporarily suspend certain tariffs, to make certain amendments in the customs laws of the United States, to implement the obligations of the United States under the International Sugar Agreement, to implement the obligations of the United States under the International Coffee Agreement, to implement the obligations of the United States under the Nairobi Protocol to the Florence Agreement, and to implement the obligations of the United States under the Convention on the Means of Prohibiting and Preventing the Illicit Import, Export, and Transfer of Ownership of Cultural Property. This act became Public Law 97-446.

(2) H.R. 6094, to authorize appropriations for the U.S. International Trade Commission, the U.S. Customs Service, and the U.S. Trade Representative. This bill also included certain substantive authorities for the agencies involved including authorization of an additional Deputy United States Trade Representative. This act became Public Law 97-456.

(3) S. 1946, to provide for the payment of awards and claims of certain U.S. nationals and the U.S. Government against the Government of Czechoslovakia for expropriated property. This act authorized the settlement of claims in excess of $100 million outstanding against the Government of Czechoslovakia for almost 35 years. This act became Public Law 97-123.

(4) On May 28, 1982, the committee held hearings on the purchase of certain Canadian-built subway cars by the New York Metropolitan Transit Authority. The purpose of the hearing was to review the purchase agreement for these subway cars, particularly the subsidized export financing offered by the Canadian Government. Following that hearing, a petition was filed alleging unfair subsidy practices by the Canadian Government in connection with the sale of subway cars. The Department of Commerce determined that the unfair subsidy amounted to $91 million.

(5) On August 2, 1982, the committee held hearings on S. 2237, the Caribbean Basin Initiative. A house version of the bill was favorably reported by the committee but no further action was taken by the Senate.

(6) The committee considered the nominations of various officials with direct responsibilities in the area of international trade. The individuals whose nominations were considered are shown in the list of committee hearings on pages 55 and 56.

SUBCOMMITTEE ON INTERNATIONAL TRADE

The Subcommittee on International Trade had primary responsibility for the oversight of trade negotiations and trade agreements to which the United States is a party and for oversight of the customs laws of the United States. In exercising this oversight responsibility the subcommittee held hearings on these and numerous other specific trade matters during the 97th Congress.

(1) On January 14 and 15, March 9, and December 1, 1981, the subcommittee held hearings on issues relating to the domestic automobile industry, including S. 396, a bill to limit the importa-

tion into the United States of automobiles manufactured in Japan. Further committee consideration of S. 396 was suspended after the Government of Japan announced a voluntary restraint on automobiles for export to the U.S. market.

(2) On April 3, 1981, the subcommittee held hearings on the authorization of appropriations for the U.S. International Trade Commission, the U.S. Customs Service, and the Office of the U.S. Trade Representative for fiscal year 1982. This bill was ordered favorably reported by the committee but was not acted upon by the Senate.

(3) On July 8, 9, 13, and 28, 1981, the subcommittee, jointly with the Subcommittee on International Finance and Monetary Policy of the Committee on Banking, Housing, and Urban Affairs, held oversight hearings on U.S. trade policy. The purpose of these hearings was to receive testimony from various officials in the administration concerning U.S. trade policy and comments from the private sector concerning that policy.

(4) On July 27, 1981, the subcommittee held hearings on continuing the President's authority to waive the Trade Act of 1974 provisions on freedom of emigration. Subsequent to these hearings, the committee took no further action, thereby agreeing to permit the continuation of the President's waiver authority for an additional year and continuing MFN treatment for Hungary, Romania, and the Peoples Republic of China for the period July 3, 1981 through July 2, 1982.

(5) On November 24, 1981, the subcommittee, jointly with the Subcommittee on Taxation and Debt Management, held hearings with respect to trade and tax issues of concern to the forest products industry. The purpose of this hearing was to explore the impact of imports, particularly lumber from Canada, on the domestic forest products industry. Since that hearing an unfair trade practice complaint was filed alleging the payment of subsidies by the Government of Canada.

(6) On December 7, 1981, the subcommittee held a hearing on two bills, S. 1865 and S. 1868, both of which contained proposed amendments to the trade adjustment assistance program for workers. S. 1865, which would have retained the preexisting causation standard, was favorably reported by the committee and approved by the Senate as an amendment to H.R. 4717. This act became Public Law 97-362.

(7) On January 29, 1982, the subcommittee held hearings on S. 958, a bill to amend the provisions of the Trade Act of 1974 and the Trade Agreement Act of 1979 with respect to the artificial pricing of articles produced in nonmarket economy countries. No further action was taken with respect to this bill.

(8) On February 11, 1982, the subcommittee held hearings on the European Community's Common Agricultural Policy (CAP), the Subsidies Code, and enforcement of U.S. rights under trade agreements, and on S. 1511, a bill to amend the Trade Agreements Act of 1979 with respect to the ability of the President to enter into agreements concerning foreign government subsidy programs. The purpose of the hearing was to receive testimony concerning the CAP and the extent to which American producers are able to obtain relief under domestic law from foreign government subsidy practices. No further action was taken on the bill but the commit-

tee favorably reported and the Senate approved S. Res. 465, concerning restoration of U.S. competitiveness in agricultural trade.

(9) On March 1, 1982, the subcommittee held oversight hearings on the U.S. approach to the 1982 GATT ministerial meeting. The purpose of this hearing was to receive testimony concerning the administration's objectives at this meeting as well as to provide committee members with the opportunity to express their views concerning this meeting. Thereafter, the committee considered and favorably reported, S. Res. 386, expressing the sense of the Senate concerning U.S. objectives at the meeting. The resolution was unanimously approved by the Senate on September 24, 1982.

(10) On March 24, 1982, the subcommittee held hearings on S. 2094 and other reciprocity bills to amend the Trade Act of 1974, to provide foreign trade practices and to increase market access opportunities for U.S. goods, services, and foreign direct investment. S. 2094 was favorably reported by the committee but no further action was taken by the Senate.

(11) On April 14, 1982, the subcommittee held hearings on authorization of appropriations for the U.S. Customs Service, the U.S. International Trade Commission, and the U.S. Trade Representative. The committee thereafter ordered favorably reported S. 2555 providing such authorizations as well as certain substantive authorities for the USITC and USTR. The substance of the bill was favorably acted upon by the Senate as an amendment to H.R. 6094, which was enacted into law by the 97th Congress. (Public Law 97-456.)

(12) On May 14, 1982, the subcommittee held hearings on S. 2051, a bill to deny the business tax deduction to U.S. broadcasters advertising on Canadian television stations until a similar Canadian practice is changed, and S. 2058, the Trade in Services Act of 1982. The provisions of S. 2058 were generally incorporated in S. 2094 as amended and ordered favorably reported by the committee. No further action was taken by the Senate.

(13) On June 9, 1982, the subcommittee held oversight hearings on the operation of the Government Procurement Code. The purpose of the hearing was to receive testimony with respect to the operation of the code, the benefits which have accrued to U.S. and foreign concerns under the code and the administration's views with respect to renewal of the code.

(14) On July 21 and 22, 1982, the subcommittee held hearings on S. 11, S. 231, S. 1552, S. 1565, S. 1588, S. 1717, S. 1723, S. 1746, S. 1902, S. 1979, S. 2566, S. 2685, S. 2692, S. 2699, S. 2705, and H.R. 4566, miscellaneous tariff bills, bills to make certain changes in the customs laws of the United States, and bills to implement certain international obligations of the United States. In general, the bills were favorably reported by the committee as amendments to H.R. 4566. The bill with further miscellaneous amendments was enacted into law by the 97th Congress. (Public Law 97-466.)

(15) On July 28, 1982, the subcommittee held hearings on S. 2539 and S. 2540, bills to authorize the President to implement U.S. obligations under the International Sugar Agreement and the International Coffee Agreement. Limited extension of the Coffee Agreement implementing authority was enacted into law as an amendment to House Joint Resolution 599, and permanent provisions for

both agreements were enacted as amendments to H.R. 4566. (Public Law 97-466.)

(16) On August 10, 1982, the subcommittee held hearings on continuing the President's authority to waive the Trade Act of 1974 provisions on freedom of emigration. Subsequent to these hearings, the committee favorably reported Senate Resolution 445 expressing the sense of the Senate with respect to United States-Romanian talks on Romanian emigration procedures. The resolution was approved by the Senate on September 24, 1982. The committee took no further action, thereby agreeing to permit the continuation of the President's waiver authority for an additional year and continuing MFN treatment for Hungary, Romania, and the People's Republic of China for the period July 3, 1982 through July 2, 1983.

(17) On September 29, 1982, the subcommittee held hearings on S. 2770 and S. 2771, bills to provide import relief to the specialty steel industry. No further committee action was taken with respect to these bills.

(18) On September 30, 1982, the committee reported Senate Resolution 462 expressing the sense of the Senate concerning consultations with the Government of Japan on exports of agricultural products from the United States to Japan. The Senate agreed to the resolution on the same day.

Legislative Review of Internal Revenue Laws

During the 97th Congress, the Committee on Finance devoted substantial attention to the examination and revision of the Federal tax laws. These efforts resulted in major changes in the Federal tax structure. For example, the committee reported legislation which lowered income tax rate for individuals and which broadened the income tax base. The committee also reported legislation which will substantially increase tax compliance. In addition, the committee reported increases in certain highway taxes to provide revenues necessary to rebuild the Nation's highway system. All these initiatives resulted in legislation which was enacted into law.

Six subcommittees with legislative review responsibilities involving tax matters examined various areas of the Federal tax laws. These subcommittees were the Subcommittee on Taxation and Debt Management, the Subcommittee on Savings, Pension, and Investment Policy, the Subcommittee on Economic Growth, Employment, and Revenue Sharing, the Subcommittee on Energy and Agricultural Taxation, the Subcommittee on Estate and Gift Taxation, and the Subcommittee on Oversight of the Internal Revenue Service.

ECONOMIC RECOVERY TAX ACT OF 1981

The first major tax measure considered by the Committee on Finance in the 97th Congress was the tax portion of the Administration's Economic Recovery program. While the major components of the original proposal, a three-year, across-the-board reduction in individual tax rates and substantially improved cost recovery for depreciating assets were retained, the committee worked extensively with the Administration and on its own initiative to fashion a broad spectrum of tax reductions designed to offset tax increases due to inflation and legislative action in prior years. The resulting legislation, the Economic Recovery Tax Act of 1981, signed into law on August 13, 1981, provides for multiyear tax reductions designed to restore incentives to work, produce, save, and invest.

The following is a summary of the principal provisions of the legislation.

Individual Income Tax Reductions

The Economic Recovery Tax Act included a three-stage, across-the-board reduction in individual income tax rates. The cumulative reductions in individual income tax rates are 11¼ percent in 1981, 10 percent in 1982, 19 percent in 1983, and 23 percent in 1984 and subsequent years. These tax reductions are accompanied by reductions in wage withholding reductions at a rate of 5 percent on October 1, 1981, 10 percent on July 1, 1982 and July 1, 1983. The top marginal tax rate was reduced from 70 percent to 50 percent on January 1, 1982, and the maximum tax rate on long-term capital gains for individuals was reduced to 20 percent for sales or exchanges after June 9, 1981.

In order to reduce the marriage tax penalty and to provide additional work incentive, the act allows two-earner married couples a deduction equal to 10 percent of the first $30,000 of earnings of the spouse with the lesser amount of earnings. The new deduction was phased in so that a 5-percent deduction applied in 1982.

The act adjusted the income tax brackets, the zero bracket amount and the personal exemption for increases in the consumer price index, starting in 1985. The first such adjustment will take place for 1985 tax returns based on price increases between fiscal year 1983 and fiscal year 1984.

The act increased the maximum amount of expenditures eligible for the child care tax credit and increased the rate of the child care credit for certain taxpayers.

The act allows taxpayers to deduct a limited amount of charitable contributions even if they do not itemize their personal deductions. This provision will expire after 1986.

The act extended from 18 months to 2 years the replacement period during which taxpayers must reinvest the proceeds from the sale of their principal residence in a new principal residence if they are to be eligible for the rollover treatment on the gain from that sale. Also, the act increased from $100,000 to $125,000 the maximum amount of capital gain on the sale of a residence excludible from gross income by a taxpayer age 55 or over.

The act replaced the present system of deductions and exclusions for excess living costs for income earned abroad with an exclusion. The maximum amount excludible was $75,000 for 1982, and it will increase in $5,000 increments to a permanent level of $95,000 in 1986 and thereafter. In addition, the act included an exclusion for excess housing costs.

Tax Reductions for Business

The act replaced the present system of depreciation with the Accelerated Cost Recovery System.

For tangible personal property (i.e., machinery and equipment) assets are grouped into four classes with recovery periods of 3, 5, 10 and 15 years.

The act also specified the amount of the cost of an asset which may be deducted in each year. The allocation method was accelerated for property placed in service in 1985 and accelerated further for assets placed in service in 1986 and subsequent years.

The act provided for a 6-percent investment tax credit for property in the 3-year class and a 10-percent investment tax credit for all other eligible property.

Under the act, the cost of real property will be written off over a 15-year period using the 175-percent declining balance method with a switch to the straight-line method (200 percent for low-income housing). The act also modified the rules for determining whether gain from the sale of real property shall be characterized as ordinary income or capital gain.

Businesses may elect to expense up to $5,000 of personal property in 1982 and 1983, $7,500 in 1984 and 1985, and $10,000 thereafter.

Under the act, the amount of used property eligible for the investment credit was increased from $100,000 to $125,000 for 1981 through 1984, and to $150,000 in 1985 and subsequent years.

The act also liberalized the rules under which a leasing transaction will be recognized as such for tax purposes.

The act limited, with certain exceptions, the amount of property eligible for the investment credit to the extent to which the taxpayer has invested his own money or is personally liable for loans.

The prior law 10-percent investment credit for expenditures to rehabilitate nonresidential structures was replaced by a graduated credit.

The act provided a 25-percent tax credit for certain expenditures incurred in research and experimentation in excess of the amount of such expenditures during a base period. The new credit applies to expenditures made after June 30, 1981, and before 1986.

The act also permits corporations which contribute newly manufactured scientific equipment to colleges and universities to claim a charitable deduction equal to the taxpayer's basis plus 50 percent of the appreciation, but not to exceed twice the basis.

For 2 years, taxpayers are allowed to allocate expenditures for research and experimentation conducted in the United States entirely to U.S.-source income.

The act reduced the tax rate on the first $25,000 of corporate taxable income from 17 percent to 16 percent in 1982 and 15 percent in subequent years. It also reduced the rate on the next $25,000 of taxable income from 20 percent to 19 percent in 1982 and 18 percent in subsequent years.

The act increased the credit against the accumulated earnings tax from $150,000 up to $250,000.

The maximum number of shareholders for a subchaper S corporation was increased from 15 to 25 and certain trusts were made eligible to be qualified shareholders.

The act provided for the simplification of LIFO inventory accounting for small businesses.

The act reinstated capital gains treatment for stock options which meet certain conditions.

The act extended the targeted jobs tax credit through 1982. It added AFDC recipients and WIN registrants as additional targeted groups, as well as Vietnam veterans age 35 or over and employees laid off from CETA programs. It limited the credit for cooperative education students to the economically disadvantaged. Also, the act made a number of administrative improvements in the credit.

The act allows taxpayers who owned motor carrier operating rights on July 1, 1980, to amoritze the basis of those rights over a 60-month period.

Windfall Profit Tax Provisions

For 1981, royalty owners were allowed a credit against the first $2,500 of windfall profit tax liability. For 1982 through 1984, the act provides an exemption from the windfall profit tax for up to 2 barrels a day of royalty production; and after 1984 it provides a 3-barrel-a-day exemption.

The act exempted stripper oil produced by independent producers, starting in 1983.

The act also reduced the windfall profit tax rate on newly discovered oil from 30 percent to 27.5 percent in 1982, 25 percent in 1983, 22.5 percent in 1984, 20 percent in 1985, and 15 percent in subsequent years.

Savings Incentives

The act terminated the $200 exclusion ($400 for a joint return) after 1981. After 1981, the law reverted to the prior $100 dividend exclusion with some technical modifications. Starting in 1985, taxpayers will be able to exclude 15 percent of interest income to the extent it exceeds nonbusiness and nonmortgage interest deductions up to a maximum exclusion of $450 ($900 for joint returns).

The act excluded up to $1,000 ($2,000 for a joint return) of interest on qualified savings certificates. These certificates must have been issued between September 30, 1981, and January 1, 1983.

The act increased the limit on deductions for contributions to individual retirement accounts to the lesser of 100 percent of compensation or ($2,250 for a spousal IRA). Also, the act made active participants in tax qualified plans eligible for IRA deductions.

The act increased the maximum annual deduction for a contribution to a self-employed retirement plan from $7,500 to $15,000.

The act replaced the extra investment credit for employee stock ownership plans (ESOP's) with a credit equal to a percentage of payroll. The payroll-based ESOP credit expires at the end of 1987.

The act excluded from income up to $750 ($1,500 for a joint return) of dividends from public utilities which are reinvested in the stock of the utility under a dividend reinvestment plan. The exclusion applies for the years 1982 through 1985.

Estate and Gift Tax Provisions

The act increased the unified credit against the estate and gift taxes. As a result, the cumulative amount of transfers exempt from these taxes is increased from $175,625 to $225,000 in 1982, $275,000 in 1983, $325,000 in 1984, $400,000 in 1985, $500,000 in 1986, and $600,000 in 1987 and subsequent years.

The top estate and gift tax rate was reduced from 70 percent to 65 percent for 1982, 60 percent for 1983, 55 percent for 1984, and to 50 percent for 1985 and subsequent years.

The act removed the quantitative limits on the marital deduction under both the estate and gift taxes so that no transfer tax is imposed on transfers between spouses. Certain terminable interests were made eligible for the deduction.

The act increased the maximum amount by which the taxable estate may be reduced under the provision for current use valuation. It also made a number of technical modifications making current use valuation easier to use and liberalizing eligibility for it.

The act increased from $3,000 to $10,000 the limit on the annual exclusion from the gift tax for gifts to any single donee. It also exempted from the gift tax certain gifts made to pay for medical expenses and school tuition.

Tax Straddles

The act required that commodity futures contracts be marked to market at the end of each year and treated as if 60 percent of the capital gains and losses on them were long-term and 40 percent were short-term. For straddles involving property other than futures contracts, losses are allowed only to the extent of unrealized gains on offsetting positions. Other lossess are deferred, interest and carrying charges limited, and the wash sale and short sale principles are extended to straddles. The act exempted hedging transactions from the mark-to-market loss deferral and capitalization rules.

Under the act, Treasury bills are treated as capital assets. Dealers are required to identify securities as investments on the first day after the date of acquisition. Finally, taxable dispositions of capital assets are treated as sales or exchanges.

Administrative Provisions

The act provided for more current adjustment of the interest rate (at 100 percent of the prime rate) applicable to tax deficiencies and underpayments to the prime interest rate.

An additional penalty was provided in the case of underpayments of tax which result from taxpayers' claiming excessive valuations for property on their tax returns.

The act provided a series of changes in penalties for negligence, filing false withholding certificates, failure to file information returns, and overstated tax deposits. It increased the Tax Court filing fee and provided for confidentiality of IRS information used to develop standards for auditing tax returns.

The act increased the minimum amount of the current year's tax liability which large corporations must cover with estimated tax payments.

The act increased the exemption from the estimated tax penalty for individuals from $100 to $500 over a 4-year period.

The act increased the railroad retirement tax on employers from 9.5 percent to 11.75 percent and provides for a new tax of 2 percent on the compensation of employees. It made a number of other technical changes to the railroad retirement program.

Miscellaneous Provisions

The act allowed State legislators to treat their district residence as their tax home and allows them to treat as business expenses an amount equal to the greater of the Federal per diem or the State per diem, with certain limitations. The changes apply to taxable years beginning after December 31, 1975.

The act extended through December 31, 1983, the prohibition on issuing regulations on fringe benefits.

The act extended through 1984 the present exclusion for employer contributions to, and benefits provided under, qualified group legal services plans and the tax exemption of trusts under such plans.

The act increased from 5 percent to 10 percent of taxable income the limit on the deduction for corporate charitable contributions.

The act extended the telephone excise tax at a 1-percent rate for 1983 and 1984.

The act exempted low-income housing from the requirement that interest and taxes paid during the construction period of a building be capitalized.

Under certain limited circumstances, the act raised from $20,000 to $40,000 the maximum amount of expenditures eligible for 5-year amortization in connection with the rehabilitation of low-income housing.

The act provides a new itemized deduction for up to $1,500 in connection with the adoption of a "hard-to-place" child.

CONFIRMATION HEARINGS

In addition to the committee's responsibilities to oversee general tax policy by reviewing legislation concerning the internal revenue laws, the committee also holds confirmation hearings to consider appointees to the positions of Secretary of the Treasury, Under Secretary of the Treasury, Assistant Secretary for Tax Policy, Commissioner of the Internal Revenue Service, Chief Counsel of the Internal Revenue Service and other positions in the Treasury Department with tax-related responsibilities. In such hearings, the committee reviews the credentials of appointees, investigates conflicts of interest, and questions appointees generally on tax policy matters concerning the administration and execution of the internal revenue laws.

The committee's confirmation hearings on proposed Treasury appointees complements its general tax policy responsibilities and furthers the committee's objective of cooperating with confirmed appointees with respect to specific problems and general approaches relevant to the implementation of laws in areas under the jurisdiction of the committee.

COMMITTEE INQUIRIES

Occasionally, the committee also directs specific complaints concerning administration of the internal revenue laws to the Commissioner of the Internal Revenue Service with a request for him to investigate and report back to the committee. Generally, these complaints raise questions concerning a lack of efficiency or impartiality by the Internal Revenue Service in the administration of the tax laws. The Commissioner of the Internal Revenue Service invariably shows considerable diligence and attention to such inquiries from the committee.

PUBLIC INQUIRIES

Finally, because of the broad impact of the internal revenue laws, the public, including individuals and associated groups, is relied on to bring to the committee's attention inequities in the execution of substantive tax laws and inefficiencies in the procedural administration of such laws.

TAX EQUITY AND FISCAL RESPONSIBILITY ACT OF 1982

The principal tax legislation reported by the Committee on Finance during the second session of the 97th Congress was the Tax Equity and Fiscal Responsibility Act of 1982 (the "1982 Act"). The 1982 Act consisted principally of measures designed to improve taxpayer compliance, eliminate obsolete incentives and loopholes, and collect user fees from taxpayers who benefit from particular Government services.

The 1982 Act included three principal provisions affecting individuals. First, it repealed the add-on minimum tax, added several new tax preferences to the alternative minimum tax, restructured the treatment of itemized deductions in the minimum tax, established a flat 20-percent rate for the minimum tax, and increased the minimum tax exemption from $20,000 to $30,000 for unmarried persons and $40,000 for married couples. These changes generally apply beginning in 1983.

Second, the 1982 Act increased the floor under the itemized deduction for medical expenses from 3 percent of adjusted gross income to 5 percent. It repealed the separate deduction for one-half of health insurance premiums up to $150. It eliminated (after 1983) the 1-percent-of-income floor on deductibility of expenditures for drugs and provided that only prescription drugs and insulin are eligible for the deduction.

Third, the 1982 Act limited the itemized deduction for nonbusiness casualty and theft losses to losses in excess of 10 percent of adjusted gross income.

In the corporate tax, the 1982 Act scaled back the following corporate tax preferences by 15 percent: percentage depletion for coal and iron ore; excess bad debt reserves of financial institutions; interest incurred by financial institutions to carry tax-exempt obligations acquired after 1982; DISC deferral of income; section 1250 recapture on real estate; rapid amortization of pollution control facilities; intangible drilling costs of integrated oil companies (which are to be amortized over 36 months); and mining exploration and development costs.

The basis of assets (which is used to compute cost recovery deductions and gain or loss) was reduced by one-half of the amount of the regular, energy, and historic structure investment tax credits.

The percentage of tax liability which taxpayers may offset by the investment tax credit was reduced from 90 percent to 85 percent.

The 1982 Act repealed the acceleration of depreciation rates scheduled for 1985 and 1986.

Interest and taxes attributable to the construction period for nonresidential real estate owned by a corporation must be capitalized and written off over 10 years.

The 1982 Act repealed safe-harbor leasing after 1983. For the period between July 1, 1982, and January 1, 1984, a restricted form of safe-harbor leasing was put into effect; thereafter, a liberalized form of prior law leasing will be permitted.

The 1982 Act provided rules under which companies with foreign oil and gas extraction income will not be able to use tax benefits from that income to reduce their taxes on other kinds of oil related income and under which oil companies will be taxed on the oil related income of their foreign subsidiaries.

Also, the 1982 Act contained a series of rules to limit the extent to which businesses can use operation in U.S. possessions to avoid tax by transferring intangibles to their possession subsidiaries and by allowing passive income to accumulate in a possession.

The 1982 Act provided several restrictions on industrial development bonds, including a sunset of the small issue exemption after 1986. Investments financed with IDB's are, with certain exceptions, limited to straight-line depreciation over ACRS lives. Also, the 1982 Act liberalized several of the rules restricting the issuance of mortgage subsidy bonds for both single-family and multifamily housing.

The 1982 Act made a number of changes in the rules relating to partial liquidations, stock redemptions, stock purchases, and other provisions relating to mergers and acquisitions. These are designed to limit certain tax benefits which may have previously arisen from mergers, acquisitions, and other corporate transactions.

The 1982 Act revised the rules for determining which costs are currently deductible and which must be allocated to long-term contracts. Exceptions were provided for small construction contractors.

The 1982 Act increased the percentage of tax liability which corporations must cover with estimated tax payments from 80 to 90 percent.

The 1982 Act eliminated the tax benefits associated with original issue discount, or zero coupon, bonds. It also eliminated the special tax treatment afforded stripping of coupons from bonds.

The 1982 Act extended the targeted jobs credit for 2 years, made the credit available for summer employment of economically disadvantaged 16 and 17 year olds, and made several administrative changes.

Effective July 1, 1983, the 1982 Act imposed 10 percent withholding on dividends and interest, similar to the withholding which now applies to wages. Exemptions were provided for persons 65 or older whose income (not including exempt income such as social security) is less than about $22,000 for a married couple, and at a lower level of income for individuals under age 65.

The 1982 Act included a number of changes designed to improve taxpayer compliance, including additional reporting requirements, changes in penalty provisions, modifications of voluntary withholding on pensions, partnership audits, and various taxpayer safeguards.

In reducing the benefits of pension plans, the 1982 Act reduced the limits on contributions to, and benefits from, tax-qualified pension plans. The limit for annual additions under defined contribution plans was reduced from $45,475 to $30,000, and the limit on annual benefits in a defined benefit plan was reduced from $136,425 to $90,000. The indexing of these limits was suspended until 1986. Limits were placed on loans from retirement plans. Rules were provided to achieve parity between corporate and noncorporate pension plans. A $100,000 cap was placed on the estate tax exclusion for annuities. Finally, there were modifications in the rules relating to retirement plans for church employees, State judicial retirement plans, profit-sharing contributions for disabled employees, and group trusts. A nondiscrimination rule was added for employer-provided group term life insurance.

The 1982 Act made a series of changes in the tax treatment of life insurance companies and annuities. The special tax rules for modified coinsurance transactions were repealed, and the formula for revaluing preliminary term reserves was changed. In addition, a number of provisions were adopted to reduce life insurance company taxes for a 2-year period. There were also new rules relating to annuity contracts and (for 2 years) flexible premium life insurance contracts.

The 1982 Act provided that certain sales persons who are licensed real estate agents, and certain direct sellers, will be treated as self-employed persons, and not as employees. Also, the Act indefinitely extended the 1978 interim provisions relating to controversies as to tax classifications of workers.

The wage base subject to the Federal unemployment tax (FUTA) was increased to $7,000 and the Federal tax rate was increased to 3.5 percent, beginning in 1983.

The 1982 Act subjected Federal employees to the hospital insurance portion of the social security tax and made them eligible for Medicare, beginning in 1983.

The 1982 Act increased four excise tax taxes. First, the 1982 Act reauthorized the Airport and Airway Trust Fund through 1987 and reinstated (with some modifications) aviation excise taxes, which were reduced in 1980, effective September 1, 1982. Second, the 1982 Act doubled the cigarette excise taxes (from 8 cents to 16 cents per pack on small cigarettes) for the period January 1, 1983 through September 30, 1985. Third, the 1982 Act increased the excise tax on local and long distance telephone services from 1 percent to 3 percent for the years 1983 through 1985 and terminated the tax after 1985. Fourth, the 1982 Act repealed the special windfall profit tax adjustment for transportation costs applicable to Alaskan oil and clarified the exemption for Alaskan native corporations.

Finally, the 1982 Act also included a number of miscellaneous revenue provisions.

THE SURFACE TRANSPORTATION ASSISTANCE OF 1982

On January 6, 1983, the President signed H.R. 6211, the Surface Transportation Assistance Act of 1982 (Public Law 97-424). The Act contains comprehensive provisions to authorize funding to repair the Nation's highways and bridges, complete the Interstate Highway System and improve public transit facilities. The regulatory provisions of the Act liberalize limits on truck weights, widths, and lengths that have proved onerous to the trucking industry and whose elimination will significantly improve trucking productivity.

The Committee on Finance had reviewed and reported the revenue provisions of the Act which restructures the highway excise taxes to make them more equitable and to ease the administrative burden on those collecting the tax.

Highway Related Taxes

The bill increases the gasoline tax from 4 cents to 9 cents per gallon, effective April 1, 1983. Similar increases are provided for the taxes on diesel fuel, special motor fuels, and motorboat fuels. The present law exemptions from these taxes are continued for buses, State and local governments, nonprofit educational institutions, and farming use. The exemption for off-highway business use, which is currently 2 cents, is extended to the full tax. A new exemption from the tax is provided for 85 percent or more alcohol fuels derived from sources other than petroleum or natural gas. Taxicabs are provided a 4-cent exemption through September 30, 1984, and the conditions under which the exemption is provided are expanded, through 1983, to include jurisdictions where ride-sharing is prohibited by local law. In addition, the Act exempts gasohol from 5 cents of the 9-cent tax and increases the 40-cent-per-gallon income tax credit for alcohol fuels and the 40-cent tariff on imported alcohol fuels to 50 cents.

The time for payment of the gasoline tax is increased by 5 days for independent refiners and for persons other than those who produce more than 1,000 barrels of crude oil per day.

The tax on highway tires, currently 9.75 cents per pound, is converted to a graduated tax based on weight. Tires 40 pounds or less, which include ordinary passenger car tires, are exempt. The tax will be 15 cents for each pound over 40 pounds, 30 cents for each pound between 70 and 90 pounds, and 50 cents for each pound over 90 pounds. The taxes on nonhighway tires, laminated tires, tread rubber, and innertubes are repealed.

The present tax on lubricating oil is repealed, effective on the day after enactment.

The 10-percent tax on trucks and trailers whose gross vehicle weight exceeds 10,000 pounds is increased to 12 percent, and the weight thresholds are increased to 33,000 pounds for trucks and 26,000 pounds for trailers. The tax is converted from a manufacturer-level to a retail-level tax. The present law tax on truck parts is repealed.

The heavy vehicle use tax, currently $3 per 1,000 pounds for vehicles whose gross vehicle weight exceeds 26,000 pounds is converted to a graduated tax, effective July 1, 1984. The maximum tax is increased to $1,600 on July 1, 1984, $1,700 on July 1, 1986, $1,800 on July 1, 1987, and $1,900 on July 1, 1988. There is a 1-year delay of this phase-in for fleets with five or fewer trucks. If a truck is retired from service during the year because of accident or theft, the use tax will be refunded on a pro rata basis. There is also an exemption for trucks used on highways for 5,000 miles or less.

Trust Fund Provisions

The Highway Trust Fund is extended from September 30, 1984, through September 30, 1988. The trust fund is also transferred to the Internal Revenue Code.

The caps on the amount transferred to the Boating Safety Fund are increased from $20 million to $45 million, both with respect to the annual cap and the cap on the amount that can be accumulated in the fund.

Finally, under the Act, an amount equivalent to a one-cent-per-gallon gasoline tax is transferred to a Transit Account in the Highway Trust Fund, money from which can be used for transit capital projects.

Other Provisions

The Act contains several miscellaneous revenue provisions, such as allowing a deduction for conventions and similar meetings on cruise ships, permitting tax-exempt bonds to be eligible investments for mutual funds, and clarifying the rules under which public utilities lose the investment credit, and accelerated depreciation when these tax benefits are flowed through too rapidly to consumers.

Spending Provisions

The Act contains two spending provisions which come within the jurisdiction of the Committee on Finance. The Act adds certain types of energy assistance provided to AFDC and SSI recipients to items of income not counted as income for purposes of determining benefits under these programs. The Act also provides from 2 to 6 weeks of supplemental unemployment compensation.

THE SUBCHAPTER S REVISION ACT OF 1982

The Committee on Finance continued its efforts to simplify the Internal Revenue laws during the 97th Congress. These efforts yielded the Subchapter S Revision Act of 1982, perhaps the most important simplification bill thus far enacted. In general, the Subchapter S Revision Act of 1982 was intended to simplify and modify the tax rules relating to eligibility for subchapter S status and the operation of subchapter S corporations. This was accomplished by removing unnecessary eligibility restrictions that were unnecessary and by revising the rules relating to income, distributions, etc., that tend to create traps for the unwary. As a result of these changes, most small businesses will be able to avoid the second tier corporate tax on their business earnings. The principal changes from present law made by the Subchapter S Revision Act are summarized below.

With respect to initial and continued eligibility of a corporation for subchapter S treatment, the Subchapter S Revision Act made the following principal changes:

(1) The number of permitted shareholders was increased from 25 to 35;

(2) The prior law rule which resulted in the termination of an election if the corporation derived more than 80 percent of its gross receipts from sources outside the United States was repealed;

(3) The prior law rule which automatically terminated a corporation's subchapter S election if more than 20 percent of a corporation's gross receipts for any taxable year was passive investment income was eliminated for corporations which do not have accumulated earnings and profits at the close of the taxable year, and will be modified for corporations with accumulated earnings and profits by raising the 20 percent test to 25 percent, by imposing a corporate level tax on the excess passive income, and by terminating the election only where the corporation has excess passive income for three consecutive taxable years; and

(4) A person who becomes a shareholder of a subchapter S corporation after the initial election of subchapter S status will no longer have the power to terminate the election by affirmatively refusing to consent to the election. Accordingly, the new shareholder will be bound by the initial election until the election is otherwise terminated.

The Subchapter S Revision Act provides that an election made on or before the fifteenth day of the third month of the taxable year will be effective for the entire taxable year, if all persons who held stock in the corporation during the pre-election portion of that year were individuals, estates, and qualified trusts, and if all persons who held stock in the corporation at any time during the year up to the time the election is made, consent to the election.

An event occurring during the taxable year which causes a corporation to fail to meet the definition of an eligible corporation will terminate the election as of the day on which the event occurred (rather than as of the first day of the taxable year in which the event occurred, as under present law). To minimize the effect of an inadvertent termination, the Internal Revenue Service may waive the terminating event so that the corporation may continue to be a subchapter S corporation notwithstanding that event.

The Subchapter S Revision Act provides that an election can be revoked by those shareholders holding a majority of the corporation's voting stock (as contrasted with the current rule which requires all shareholders to consent to a revocation). A retroactive revocation may be filed on or before the fifteenth day of the third month of the taxable year.

The Subchapter S Revision Act provides that the character of items of income, deduction, loss, and credits of the corporation will pass through to the shareholders in the same general manner as the character of such items of a partnership passes through to partners.

Under the Subchapter S Revision Act, rules generally similar to those applicable to partnerships will apply to the selection of a taxable year for a subchapter S corporation.

Under the Subchapter S Revision Act, a subchapter S shareholder will be entitled to carry forward a loss to the extent that the amount of the loss passed through for the year exceeds the aggregate amount of the basis in his subchapter S stock and loans to the corporation. The loss carried forward can be deducted only by that shareholder if and when the basis in his stock of, or loans to, the corporation is restored.

The Subchapter S Revision Act substantially revised the rules relating to distribution from subchapter S corporations.

Under the new rules, a corporation will not have earnings and profits attributable to any taxable year beginning after the date of enactment if a subchapter S election is in effect for that year. For corporations with no earnings and profits, the amount of the distribution (generally cash plus the fair market value of property) will be tax free and will reduce the shareholder's basis in his or her stock. To the extent that the amount of the distribution exceeds the amount of the basis in the stock, capital gains generally will result.

For corporations with accumulated earnings and profits, the distribution will first be treated as a distribution by a corporation without earnings and profits to the extent of the shareholder's portion of the undistributed gross income less deductible expenses. Amounts distributed in excess of such limit will be treated under the usual corporate rules as a dividend.

Both taxable and nontaxable income and deductible and nondeductible expenses will serve, respectively, to increase and decrease the subchapter S shareholder's basis in his or her stock of, and loans to, the corporation. These rules are generally analogous to those provided for partnerships.

Rules similar to the partnership tax rules will apply to employee fringe benefits. For this purpose, persons owning two percent or more of the corporate stock will be treated as partners. Similarly, amounts accruing to any cash-basis shareholder owning two percent or more of the corporation's stock will be deductible only when paid.

Finally, the Subchapter S Revision Act provides that the items of subchapter S income, deductions, and credits will be determined in audit and judicial proceedings at the corporate level rather than separately with each shareholder. Shareholders are to be given notice of, and the opportunity to participate in, Internal Revenue Service proceedings with the corporation.

TECHNICAL CORRECTIONS ACT OF 1982

The Economic Recovery Tax Act of 1981 and the Tax Equity and Fiscal Responsibility Act of 1982 were two of the most comprehensive revisions of the tax laws since 1954. The Installment Sales Revision Act of 1980, the Bankruptcy Tax Act of 1980, and the Subchapter S Revision Act of 1982, were also substantial tax measures. It is not surprising, therefore, that, as time permitted a thorough review of these major acts, the need for numerous technical, clerical and clarifying changes became evident. The Technical Corrections Act of 1982 made these necessary technical changes.

Of principal importance were several changes also were made in the new accelerated cost recovery system (ACRS), the estate tax rules of the Economic Recovery Tax Act, and in the effective dates of the Subchapter S Revision Act of 1982.

THE DEBT COLLECTION ACT OF 1982

On October 25, 1982, the Debt Collection Act of 1982, was enacted into law. The Committee on Finance had reviewed and reported the revenue provisions of the act which will: (1) require applicants for Federal loans or financial assistance to provide their social security numbers with their application; (2) allow the Internal Revenue Service to disclose to other Federal agencies whether a Federal loan applicant has any outstanding, unpaid tax liabilities; and (3) allow the IRS to disclose individuals' mailing addresses to agents (private contractors) of Federal agencies for purposes of debt collection.

The Debt Collection Act will increase the efficiency of Government-wide efforts to collect debts owed the United States by generally allowing the Internal Revenue Service, under certain circumstances, to disclose mailing addresses of taxpayers to officers and employees of Federal agencies for their use in locating taxpayers for the purposes of collecting or compromising delinquent Federal claims.

EDUCATIONAL OPPORTUNITY AND EQUITY ACT OF 1982 (NOT ENACTED)

On June 23, 1982, the Senate referred to the Committee on Finance, a bill embodying the Administration's proposal to provide a limited Federal income tax credit for private school tuition. The committee held hearings on July 16, 1982, and on September 23, 1982, reported a tuition tax credit proposal in the form of an amendment to H.R. 1635. However, H.R. 1635 as amended by the committee was not considered by the Senate prior to the conclusion of the 97th Congress.

The committee's bill provided a nonrefundable credit for 50 percent of tuition expenses paid to private elementary and secondary schools for certain dependents of the taxpayer. The maximum credit was $100 in 1983, $200 in 1984, and $300 in 1985 and subsequent years. The maximum credit amount was phased down for taxpayers with adjusted gross incomes of greater than $40,000, and no credit was allowed for taxpayers with adjusted gross incomes of $50,000 or more. The committee also approved a separate amendment that would have allowed the tuition tax credits permitted by H.R. 1635 to be refundable.

For tuition expenses to be creditable, a school could not follow a racially discriminatory policy. An eligible school would be required to include a statement of its nondiscriminatory policy in any published by-laws, admissions materials, and advertising, and to file annually with the Treasury Department a statement that it had not followed a racially discriminatory policy. Generally, a copy of this statement would also be furnished to each individual who paid tuition to the school, to be attached to any return on which credits were claimed. In addition, the bill would disallow credits for payments to any school found to be following a racially discriminatory policy in an action brought by the Attorney General under the bill's innovative declaratory judgment provisions.

The bill would have applied to tuition paid or incurred after July 31, 1983, for taxable years beginning after December 31, 1982; however, no credits were to be allowed until either a final decision by the Supreme Court of the United States or an Act of Congress prohibited the granting of a tax exemption under section 501(a) of the Internal Revenue Code by reason of section 501(c)(3) to private educational institutions that maintain a racially discriminatory policy or practice as to students.

MISCELLANEOUS TAX BILLS

In addition to the major tax policy areas that the Committee on Finance must study, there are more minor, miscellaneous tax law problems that must be resolved. During the 97th Congress, the Committee on Finance took action on seven revenue bills dealing with miscellaneous problems in the tax laws. Of these, four became law and three were reported to the full Senate but not enacted into law. A major provision of one of these three bills, H.R. 1524, dealing with the normalization method of treating public utility property, was separately enacted into law as part of H.R. 6211, the Surface Transportation Assistance Act of 1982. In addition, the committee reported out miscellaneous amendments to H.R. 4717, a miscellaneous revenue bill passed by the House of Representatives. That bill, with Senate amendments dealing with tax and other matters, was passed by the Senate and a conference agreement with the House reached in October 1982. The bill was then signed into law.

While these miscellaneous tax bills tend to be narrower in scope than the major tax legislation considered by the Committee on Finance, they often concern significant issues of public policy. For example, one of these bills, H.R. 5159, revised the taxation and benefit structure of the Black Lung Disability program in order to insure its financial security.

H.R. 4717 provisions were enacted that allowed a limited 10-year carryback and 5-year carryover for net operating losses of the Federal National Mortgage Association, provided a limited exception from the LIFO reserve recapture rule that would allow a reduction of up to $1 million in the amount of recapture, and modified the rule for providing W-2 forms to employees whose employment terminates during the year.

Another bill enacted late in the 97th Congress, H.R. 5470, excluded from gross income certain lump sum or periodic payments received on account of damage for injuries or sickness, and conformed the tax status of certain American Indian tribal governments to that accorded States for purposes of the taxes paid deduction from Federal income taxes, the charitable contributions deduction for contributions to governments, certain excise tax exemptions, and the income tax exemption for certain governmental obligations such as industrial development bonds. H.R. 5470 as enacted also included a provision, originally included in H.R. 7093, that reduces the rate of certain taxes paid to the Virgin Islands on Virgin Islands source income.

Two other revenue bills were reported by the Committee on Finance to the Senate but failed to receive Senate action in the 97th Congress. H.R. 5573 as reported by the committee would have provided a special deduction rule for certain corporate charitable contributions of newly manufactured computer equipment to elementary or secondary schools or museums or libraries for use in the education of elementary or secondary schoolchildren. H.R. 7094, which would have imposed a tax on failures to adhere to conditions of existing determination letters relating to independent management of assets of multiemployer plans, also included provisions agreed to by the committee that would have authorized the designation of certain distressed areas as "enterprise zones" eligible for tax relief such as new investment and employment credits, elimination of capital gains tax on zone investments, and removal of certain restriction on tax-exempt bond financing in the enterprise zone. A number of the issues raised by these bills that were not enacted into law may be of continued concern to the 98th Congress.

LEGISLATIVE REVIEW OF TAXATION AND DEBT MANAGEMENT

In addition to hearings on numerous specific legislative proposals, the Committee on Finance held several days of hearings to review broad questions of tax policy. One series of hearings in September 1982, examined proposals to simplify the tax law by enacting a broad-base, flat-rate tax, and other tax simplification and reform proposals. In addition, the committee held a day of hearings in December 1981 to examine the operation and efficiency of the then recently enacted safe-harbor leasing rules of the Economic Recovery Tax Act of 1981. The leasing rules were subsequently modified in the Tax Equity and Fiscal Responsibility Act of 1982.

In February 1982, the committee held one day of hearings to examine the Administration's proposal to provide explicit statutory support for a twelve year old IRS administrative policy denying the benefits of tax-exempt status to racially discriminatory private schools. The Administration's legislative proposal was not acted upon, pending resolution by the Supreme Court of a series of cases involving statutory and constitutional issues affecting the legislation. However, one indirect outcome of the hearings was the agreement of the committee on a series of innovative anti-discrimination provisions, amending the committee's tuition tax credit bill, designed to deny the benefits of tuition tax credits to parents enrolling their children in racially discriminatory schools, while preserving the schools' due process rights.

The Subcommittee on Taxation and Debt Management held 28 days of hearings during 1981 and 1982 on miscellaneous specific tax proposals. The more than 80 bills reviewed included measures to prevent tax avoidance through the use of commodity tax straddles, and to increase the revenue sources of the airport and airway trust funds, both of which were subsequently enacted. The subcommittee also held hearings, on three different occasions during the 97th Congress, to consider the public debt limit. The subcommittee continues to believe that it is only through such continued oversight that the Congress can attempt to focus attention on efforts to slow the growth of the national debt. Among the specific reforms adopted by the Congress in the area of debt management during the 97th Congress was a revision of the U.S. savings bond program to permit savings bonds to return more realistic yields to bond purchasers, in light of prevailing interest rates in the money markets.

LEGISLATIVE REVIEW OF SAVINGS, PENSIONS, AND INVESTMENT POLICIES

The Subcommittee on Savings, Pensions, and Investment held eleven days of hearings on more than 20 legislative proposals affecting savings and investment incentives, retirement policies, pension reform, and related tax policy issues. Among the areas examined were the Administration's proposal to create urban enterprise zones (subsequently reported by the committee), and a report by the President's Commission on Pension Policy.

LEGISLATIVE REVIEW OF ECONOMIC GROWTH AND EMPLOYMENT

The Subcommittee on Economic Growth, Employment, and Revenue Sharing held hearings on April 3, 1981, on the subject of tax incentives for employment. Testimony was received from Federal and State officials and from the private sector on the effectiveness of the Targeted Jobs Tax Credit, addressing both conceptual and administrative questions. Other testimony was directed to alternative formulations for tax incentives to increase employment, on both a general and a targeted basis.

The full Senate subsequently approved a floor amendment to the Economic Recovery Tax Act, to extend the Targeted Jobs Tax Credit for one year beyond its expiration date of December 31, 1981, and make some modifications in the program. The comparable House bill resolved the differences between the two versions of the jobs credit extension, and the conference report was approved by both Houses of Congress in August 1981.

Further action on the Targeted Jobs Tax Credit occurred in 1982. In July of that year the full committee approved H.R. 4961, the Tax Equity and Fiscal Responsibility Act of 1982, including a provision to extend the Targeted Jobs Tax Credit for 3 years and expand its coverage to include summer youth employment. The Conference Committee on H.R. 4961 agreed to a 2-year extension of the jobs credit, including the summer youth program and other technical modifications.

LEGISLATIVE REVIEW OF ENERGY AND AGRICULTURAL TAXATION

The Subcommittee on Energy and Agricultural Taxation held 14 days of hearings, reviewing more than 15 specific bills and a number of more general areas of concern, including a wide-ranging examination in June 1982, of various alternatives for reducing the deficit and encouraging energy conservation through energy taxes. Subsequently, in December 1982, the Congress enacted the Administration's proposal to increase gasoline excise and other highway user fees, to help fund the rehabilitation of the Nation's bridge and highway system.

LEGISLATIVE REVIEW OF ESTATE AND GIFT TAXATION

The Subcommittee on Estate and Gift Taxation held 6 days of hearings to review 15 legislative proposals affecting estate and gift taxation. During the first session, following the subcommittee's hearings, Congress enacted several major reforms to the estate and gift tax laws, including the creation of an unlimited marital deduction, allowing all of a decedent's property to pass to a surviving spouse free of estate tax.

CONGRESSIONAL OVERSIGHT OF THE INTERNAL REVENUE SERVICE

The Subcommittee on Oversight of the Internal Revenue Service held 6 days of hearings to review 6 legislative proposals, and one day of hearings to review controversial IRS regulations affecting imputed interest calculations and various estate tax rules affecting family farms and other small family businesses.

The Subcommittee's legislative hearings led, in each case, to the enactment of significant legislation, including the landmark tax compliance provisions of the Tax Equity and Fiscal Responsibility Act, as well as that Act's provisions providing greater taxpayer protections, allowing the award of attorney's fees in tax cases, and marshalling the use of a limited amount of IRS information in the fight against organized crime.

LIST OF HEARINGS HELD BY THE COMMITTEE ON FINANCE—FULL COMMITTEE

LEGISLATIVE HEARINGS

Spending Reduction Proposals—Parts 1 and 2 (March 17, 18, 19, 24, 25, 26, and 31, and April 1 and 2, 1981).

Tax Cut Proposals—Parts 1, 2, and 3 (May 13, 14, 18, 19, 20, and 21, 1981).

Oversight of HHS Inspector General's Effort to Combat Fraud, Waste, and Abuse—Joint Hearing With Special Committee on Aging (December 9, 1981).

Safeharbor Leasing (December 10, 1981).

Legislation to Deny Tax Exemption to Racially Discriminatory Private Schools (February 1, 1982).

Administration's FY 83 Budget Proposal—Parts 1, 2, 3, 4, and 5 (February 23, 24 and March 9, 10, 11, 16, 17, 18, and 19, 1982).

New York MTA Purchase of Canadian Subway Cars (May 28, 1982).

Federal Budget Crisis (June 10, 1982).

S. 2224, S. 2547, S. 2687—Tax Treatment of Corporate Mergers and Acquisitions (July 15, 1982).

S. 2673—Tuition Tax Credit Proposals (July 16, 1982).

Extension of Unemployment Compensation Benefits (July 29, 1982).

S. 2237—Caribbean Basin Initiative (August 2, 1982).

Social Security Disability Insurance Program (August 18, 1982).

National Forest Investment Act (September 1, 1982).

S. 2350—Subchapter S Revision Act of 1982 (September 10, 1982).

Flat-Rate Tax and Major Tax Reform Proposals (September 28, 29, and 30, 1982).

S. 3044—Administration's Highway User Tax Proposal (November 30, 1982).

S. 2985—Accrual Method of Accounting (December 15, 1982).

NOMINATIONS

Donald T. Regan, to be Secretary of the Treasury (January 6, 1981).

Richard S. Schweiker, to be Secretary of Health and Human Services (January 6, 1981).

Wiliam E. Brock, to be U.S. Trade Representative (January 19, 1981).

R. T. McNamar, to be Deputy Secretary of the Treasury (February 6, 1981).

W. Dennis Thomas, to be Deputy Under Secretary of the Treasury (February 6, 1981).

John E. Chapoton, to be Assistant Secretary of the Treasury for Tax Policy (March 5, 1981).

Roscoe L. Egger, Jr., to be Commissioner of the Internal Revenue Service (March 5, 1981).

Paul Craig Roberts, to be Assistant Secretary of the Treasury for Economic Policy (March 5, 1981).

David B. Swoap, to be Under Secretary of Health and Human Services (March 12, 1981).

Angela M. Buchanan, to be Treasurer of the United States (March 12, 1981).

Norman B. Ture, to be Under Secretary of the Treasury (March 20, 1981).

Beryl Wayne Sprinkel, to be Under Secretary of the Treasury for Monetary Affairs (March 20, 1981).

Roger W. Mehle, Jr., to be Assistant Secretary of the Treasury for Domestic Finance (April 23 and 28, 1981).

Marc E. Leland, to be Deputy Under Secretary of the Treasury (April 23 and 28, 1981).

Lionel H. Olmer, to be Under Secretary of Commerce for International Trade (April 23 and 28, 1981).

Raymond J. Waldmann, to be Assistant Secretary of Commerce for International Economic Policy (April 23 and 28, 1981).

John A. Svahn, to be Commissioner of Social Security (April 23 and 28, 1981).

Dorcas R. Hardy, to be Assistant Secretary of Health and Human Services (April 23 and 28, 1981).

Lawrence J. Brady, to be Assistant Secretary of Commerce (May 22, 1981).

Pamela Needham Bailey, to be Assistant Secretary of Health and Human Services (May 22, 1981).

Richard P. Kusserow, to be Inspector General, Department of Health and Human Services (May 22, 1981).

David R. Macdonald, to be Deputy U.S. Trade Representative (May 22, 1981).

Robert J. Rubin, to be Assistant Secretary of Health and Human Services (May 22, 1981).

Ann Dore McLaughlin, to be Assistant Secretary of the Treasury (June 11, 1981).

Peter J. Wallison, to be General Counsel of the Department of the Treasury (June 11, 1981).

Eugene J. Frank, to be Commissioner of the U.S. International Trade Commission (July 29, 1981).

Kenneth W. Gideon, to be an Assistant General Counsel, Department of the Treasury (Chief Counsel for the Internal Revenue Service) (July 29, 1981).

John W. Walker, Jr., to be Assistant Secretary for Enforcement and Operations, Department of the Treasury (July 29, 1981).

Juan A. del Real, to be General Counsel of the Department of Health and Human Services (July 29, 1981).

Thomas R. Donnelly, to be Assistant Secretary for Legislation, Department of Health and Human Services (July 29, 1981).

Alfred E. Eckes, Jr., to be a member of the U.S. International Trade Commission (June 15, 1981).

Meade Whitaker, to be judge of the U.S. Tax Court (December 2, 1981).

Jules G. Korner III, to be judge of the U.S Tax Court (December 2, 1981).

Perry Shields, to be judge of the U.S. Tax Court (December 2, 1981).

Clarence Eugene Hodges, to be Commissioner, Administration for Children, Youth, and Families and Chief of the Children's Bureau, Department of Health and Human Services (December 11, 1981).

Veronica Haggart, to be Commissioner of the U.S. International Trade Commission (March 2, 1982).

Mary Ann Cohen, to be judge of the U.S. Tax Court (August 12, 1982).

Lapsley Walker Hamblen, Jr., to be judge of the U.S. Tax Court (August 12, 1982).

Susan W. Liebeler, to be Commissioner of the International Trade Commission (December 8, 1982).

Enrique J. Leon, to be Commissioner of the International Trade Commission (December 8, 1982).

Manuel H. Johnson, Jr., to be an Assistant Secretary of the Treasury (December 8, 1982).

LIST OF HEARINGS HELD BY SUBCOMMITTEES OF THE COMMITTEE ON FINANCE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY

Public Debt Limit (February 4, 1981).

S. 31, S. 239, S. 452—1981-82 Miscellaneous Tax Bills I (February 23, 1981).

S. 352, S. 483, S. 502, S. 565—1981-82 Miscellaneous Tax Bills II (March 16, 1981).

S. 388, S. 446, S. 464, S. 476, S. 499, S. 500, S. 501—1981-82 Miscellaneous Tax Bills III (March 30, 1981).

S. 408, S. 436, S. 598, S. 867—1981-82 Miscellaneous Tax Bills IV (April 24, 1981).

S. 639, S. 702, S. 738—1981-82 Miscellaneous Tax Bills V (May 8, 1981).

S. 230, S. 450, S. 644, S. 978, S. 1039—1981-82 Miscellaneous Tax Bills VI (May 22, 1981).

S. 550—Tuition Tax Credits—Parts 1 and 2 (June 3 and 4, 1981).

S. 626—Commodity Tax Straddles (June 12, 1981).

S. 169, S. 532, S. 721, S. 791, and S. 979—1981-82 Miscellaneous Tax Bills VII (June 26, 1981).

S. 805, S. 1214, S. 1304, S. 1320, and S. 1369—1981-82 Miscellaneous Tax Bills VIII (July 24, 1981).

S. 1047 and S. 1272—Airport and Airway Tax Measures (July 27, 1981).

1981 Public Debt Limit II (September 11, 1981).

S. 578, S. 768, S. 1276, and S. 1472—1981-82 Miscellaneous Tax Bills IX (September 25, 1981).

S. 425, S. 608, S. 1348, S. 1479, S. 1580, S. 1656—1981-82 Miscellaneous Tax Bills X (October 16, 1981).

S. 1035, S. 1595, S. 1745—1981-82 Miscellaneous Tax Bills XI (October 30, 1981).

S. 1081, S. 1594, S. 1749, S. 1764—1981-82 Miscellaneous Tax Bills XII (November 6, 1981).

S. 1824—Forest Products Industry Issues—Joint Hearing With the Subcommittee on International Trade (November 24, 1981).

S. 696, S. 1883—1981-82 Miscellaneous Tax Bills XIII (December 11, 1981).

S. 1887—Tax Credits for Installation of Airbags in Automobiles (January 28 and March 2, 1982).

S. 1828—Tax Treatment of Thrift Partnerships—Joint Hearing With Banking Subcommittee on Housing and Urban Affairs (February 5, 1982).

S. 473, S. 474, S. 710, S. 1854, S. 1923—1981-82 Miscellaneous Tax Bills XIV (April 23, 1982).

S. 1928, S. 2214, S. 2281—Treatment of Interest and Dividends, Charitable Contributions of Certain Inventory, and Uranium Litigation, Settlement Discounts—Joint Hearing With the Subcommittee on Savings, Pensions, and Investment Policy (May 7, 1982).

S. 2051, S. 2058—Trade in Services (May 14, 1982).

S. 1485, S. 2075, S. 2424, S. 2425—1981-82 Miscellaneous Tax Bills XV (May 21, 1982).

Public Debt Limit (May 27, 1982).

S. 2012, S. 2015, S. 2092, S. 2113, S. 2176, S. 2321, S. 2413—Tax Provisions Affecting State and Federal Legislators' Away-From-Home Expenses (June 18, 1982).

S. 1298, S. 2197, S. 2498—1981-82 Miscellaneous Tax Bills XVI (July 19, 1982).

S. 232, S. 2741—1981-82 Miscellaneous Tax Bills XVII (September 23, 1982).

S. 2647, S. 2987, S. 3064—1981-82 Miscellaneous Tax Bills XVIII (December 10, 1982).

SUBCOMMITTEE ON SAVINGS, PENSIONS, AND INVESTMENT POLICY

S. 12, S. 24, S. 243—Savings Incentives (February 24, 1981).

S. 75, S. 141, S. 142, S. 145, S. 155, S. 330, S. 457, S. 492, S. 819, S. 936—Savings and Investment Incentive Tax Bills (May 4, 1981).

Report of the President's Commission on Pension Policy (May 15, 1981).

S. 1310—Urban Enterprise Zones (July 13 and 16, 1981).

S. 829, S. 1607, S. 1645—Savings and Retirement Proposals (December 4, 1981).

S. 2105, S. 2106—Pension Reform for State and Local Employee Retirement Systems (March 29, 1982).

S. 2298—Enterprise Zones of 1982 (April 21, 1982).

S. 1928, S. 2214, S. 2281—Tax Treatment of Interest and Dividends, Charitable Contributions of Certain Inventory, and Uranium Litigation, Settlement Discounts—Joint Hearing With Subcommittee on Taxation and Debt Management (May 7, 1982).

Mortgage Investments by Pension Funds and Tax Treatment of Certain Church Retirement Annuities (May 19, 1982).

S. 2860—Modification of the Multiemployer Pension Plan Amendments Act and Pension Plan Investments in the Residential Mortgage Market (September 27, 1982).

SUBCOMMITTEE ON INTERNATIONAL TRADE

Issues Relating to the Domestic Auto Industry—Part 1 (January 14 and 15, 1981).

S. 396—Issues Relating to the Domestic Auto Industry—Part 2 (March 9, 1981).

FY 1982 Budget for Customs, ITC, and STR (April 3, 1981).

Oversight of U.S. Trade Policy—Joint Hearing With Subcommittee on International Finance and Monetary Policy of the Committee on Banking, Housing, and Urban Affairs (July 8, 9, 13, and 28, 1981).

Most Favored Nation Status for Romania, Hungary, and China (July 27, 1981).

S. 1824—Forest Products Industry Issues—Joint Hearing with the Subcommittee on Taxation and Debt Management (November 24, 1981).

Issues Relating to the Domestic Auto Industry—Part 3 (December 1, 1981).

S. 1865, S. 1868—Trade Adjustment (December 7, 1981).

S. 958—Remedy for Artificial Price of Articles Produced by Nonmarket Economy Countries (January 29, 1982).

S. 1511—The European Communities' Common Agricultural Policy, the Subsidies Code, and Enforcement of U.S. Rights Under Trade Agreements (February 11, 1982).

U.S. Approach to 1982 Meeting of World Trade Ministers on the GATT (March 1, 1982).

S. 2067, S. 2071, S. 2094—Trade Reciprocity (March 24, 1982).

Fiscal Year 1983 Budget for Customs Service, International Trade Commission, and U.S. Trade Representative (April 14, 1982).

S. 2094, Trade Reciprocity—Part 2, (May 6, 1982).

S. 2051, S, 2058, Trade in Services—Joint hearing with the Subcommittee on Taxation and Debt Management (May 14, 1982).

Oversight Hearing on Government Procurement Code and Related Agreements (June 9, 1982).

S. 11, S. 231, S. 1552, S. 1565, S. 1588, S. 1717, S. 1723, S. 1746, S. 1902, S. 1979, S. 2031, S. 2247, S. 2396, S. 2560, S. 2566, S. 2685, S. 2692, S. 2699, S. 2705, H.R. 4566, Miscellaneous Tariff Bills (July 21, 22, 1982).

S. 2539, S. 2540, Sugar and Coffee Agreements (July 28, 1982).

President's Authority To Waive Freedom of Emigration Provisions (August 10, 1982).

S. 2770, S. 2771, Specialty Steel (September 29, 1982).

SUBCOMMITTEE ON ECONOMIC GROWTH, EMPLOYMENT, AND REVENUE SHARING

Targeted Jobs Tax Credit (April 3, 1981).

SUBCOMMITTEE ON OVERSIGHT OF THE INTERNAL REVENUE SERVICE

IRS Regulations Increasing Imputed Interest Rates and Interpreting Estate Tax Law Concerning Valuation of Family Farm and Other Business Properties (April 27, 1981).

S. 850—Taxpayer Bill of Rights (June 2, 1981).

S. 1249—Debt Collection Act of 1981 (July 20, 1981).

S. 752—Recovery of Attorneys' Fees in Tax Cases (October 19, 1981).

S. 732—Disclosure of IRS Information to Assist with the Enforcement of Criminal Laws (November 9, 1981).

S. 2198—Compliance Gap (March 22, 1982).

Independent Contractor Tax Proposals (April 26, 1982).

SUBCOMMITTEE ON ESTATE AND GIFT TAXATION

S. 23, S. 395, S. 404, S. 557, S. 574, S. 858, S. 955—Major Estate Tax Issues—Parts 1 and 2 (May 1 and June 5, 1981).

S. 649, S. 851, S. 852, S. 1695, S. 1733, S. 1734—Estate Tax Issues (November 4, 10, and 18, 1981).

S. 1983, S. 2479—Estate Tax Issues (May 27, 1982).

SUBCOMMITTEE ON SOCIAL SECURITY AND INCOME MAINTENANCE PROGRAMS

Social Security Financing and Options for the Future—Parts 1 and 2 (July 7, 9, and 10, 1981).

Social Security Trust Fund Investment Policy (June 8, 1982).

S. 2470, S. 2471, S. 2472, S. 2550—Unemployment Compensation Issues (Field Hearings—Buffalo, N.Y. and Pittsburgh, Pa.) (July 31, 1982).

SUBCOMMITTEE ON HEALTH

Proposed Phaseout of PSRO's and Utilization Review Requirements (March 23, 1981).

Rural Health Care (June 29, 1981).

Medicare Reimbursement of HMO's (July 30, 1981).

End-Stage Renal Disease Program (September 28, 1981).

Competitive Contracting for the Administration of Medicare Claims (December 3, 1981).

Proposed Prospective Reimbursement Rates for the End-Stage Renal Disease Program (March 15, 1982).

S. PSRO, S. 2142, PSRO Proposals (April 1, 1982).

State Hospital Payment Systems (June 23, 1982).

Medicare Coverage for the Treatment of Alcoholism (July 27, 1982).

Hospital Reimbursement Systems Used by Private Third Party Payors (September 16, 1982).

SUBCOMMITTEE ON ENERGY AND AGRICULTURAL TAXATION

Incentives for Domestic Refining (March 7, 1981).

S. 307, S. 448, S. 498, S. 725, Miscellaneous Energy Tax Bills (June 8, 1981).

S. 626, Commodity Tax Staddles (June 12, 1981).

Alternatives for the Protection of Jackson Hole's Pastoral Lands—Joint Hearing With the Subcommittee on Public Lands and Reserved Water of the Committee on Energy and Natural Resources (August 28, 1981).

S. 750, S. 1288, Industrial and Commercial Energy Tax Credit (October 19, 1981).

S. 329, S. 569, S. 1252, S. 1561, Miscellaneous Energy Tax Bills II (October 23, 1981).

Standby Revenue Recycling Authority To Deal With Petroleum Supply Disruptions (December 8, 1981).

S. 1449, Renewable Energy Tax Credits (December 11, 1981).

S. 1819, S. 2151, Energy Tax Credit (March 30, 1982).

S. 1919, Energy Community Self-Help (April 16, 17, 1982).

S. 1713, Legislation Relating to Farmland Development Rights (May 24, 1982).

Energy Tax Options (June 9, 1982).

S. 1911, S. 2642, Mining Reclamation Reserve Bills (December 7, 1982).

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